SASKATCHEWAN

Report of the Provincial Auditor

to the Legislative Assembly
of Saskatchewan

2001 Fall Report
Volume 2

Provincial Auditor Saskatchewan

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Vision

We envision effective, open and accountable government.

Mission

We serve the people of Saskatchewan through the Legislative Assembly.
We are committed to fostering excellence in public sector management and accountability.

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102-01612/

December 3, 2001

The Honourable P. Myron Kowalsky
Speaker of the Legislative Assembly
Room 129, Legislative Building
REGINA, Saskatchewan
S4S 0B3

Dear Sir:

I have the honour of submitting my *2001 Fall Report – Volume 2*, to be laid before the Legislative Assembly in accordance with the provisions of Section 14.1 of *The Provincial Auditor Act*.

Respectfully yours,

Fred Wendel, CMA, CA
Acting Provincial Auditor

/dd

Foreword

I am pleased to present my *2001 Fall Report – Volume 2* to the Legislative Assembly. This Report includes the results of our work at government organizations primarily with years ended March 31, 2001.

I wish to thank all the staff and officials of the government organizations audited by my Office for their co-operation and assistance. Also, I wish to thank the staff of my Office for their constant pursuit of excellence in public sector management and reporting practices.

Regina, Saskatchewan
December 3, 2001

Fred Wendel, CMA, CA
Acting Provincial Auditor

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Introduction

In this Report, we set out the conclusions, findings, and recommendations of our Office pertaining primarily to the audits of government organizations with March 31 year-ends. These organizations include government departments, health and education institutions, and many other boards and commissions.

The Government continues to improve its systems and practices for managing public resources and its public accountability. This Report covers nearly 140 organizations. For the most part, these organizations have adequate systems and practices to safeguard and control public resources and have complied with the law. The few agencies that have inadequate systems and practices are making good progress in improving their practices. Organizations continue to improve their performance reports (e.g., annual reports), which are key accountability documents.

However, some problems persist. In this chapter, we outline some of the difficulties and challenges. First, under the heading "Risk management" we discuss how some organizations are managing the risks they face. Under the heading "Improving the Government's accountability", we discuss improvements and our work in this area.

Risk management

This Report continues our focus on how government organizations manage their key risks. Well-managed organizations set out clear measurable objectives, identify the risks to achieving those objectives, and act to reduce the risks to an acceptable level. We focus on risks related to infrastructure, governance and supervisory practices, and population changes.

Infrastructure

Infrastructure is essential for the delivery of government programs. Infrastructure includes roads, bridges, buildings, equipment, and computer systems and networks. We estimate the Government's infrastructure is worth more than $14 billion. To provide public services, the Government spends significant amounts of money on infrastructure. It must not only spend money to buy infrastructure, it must also maintain its infrastructure.

In our 2000 Fall Report – Volume 3, we described our plan to audit the Government's processes for managing the key risks related to its infrastructure. We will audit the Government's management of these key risks over the next few years.

The Government has a major investment in computer systems and is planning to develop more large systems. Developing large computer systems and networks is risky. Sound project management practices can reduce these risks and increase the likelihood of a project's success. Chapter 9, Justice, highlights what can go wrong when an agency develops a new computer system.

In this Report, we continue our focus on ensuring government agencies use sound project management practices when they develop new computer systems.

In Chapter 1, **Information Services Corporation – LAND Project**, we report on the adequacy of the project management practices used to develop a new computer system. The Corporation is developing a new computer system for land titles and geographic information called the LAND System. The LAND System is expected to cost $58 million. We make five recommendations to improve the likelihood of the Corporation successfully completing this major project.

In Chapter 2, **Electronic service delivery in Government**, we set out good practices that will reduce government agencies' risks as they move forward on the Government's plan to deliver information and services electronically. The Government has plans to increase citizens' access to government information and services through electronic service delivery (ESD) using the internet, e.g., the CommunityNet.

This move to ESD will require many new and large computer systems and networks to deliver information and services. Implementing ESD means that the Government will need to manage new risks including new privacy and security risks. In future reports, we will report on the adequacy of the practices that agencies use to develop their electronic service delivery systems.

Good public reporting on the state of the Government's infrastructure is important for public accountability and good management. In Chapter 3, **Reporting on infrastructure**, we set out the information that government agencies should report publicly about their infrastructure. We will examine the information that two government agencies actually report about their infrastructure and describe our findings in a future report.

The Government is exploring the use of public-private partnerships to deliver services including the building and maintaining of infrastructure. Chapter 4, **Managing accountability risks in public-private partnerships**, discusses how the Government should maintain public accountability when delivering services through public-private partnerships.

Maintaining good capital asset plans helps to reduce risks related to infrastructure. In Chapter 6, **Part D – Capital equipment plans for health districts,** we report on the adequacy of the capital equipment plans of two larger health districts. Those plans need considerable improvement.

Governance and Supervisory Practices

Good governance and supervisory practices help agencies properly manage public resources. Many of our findings in this Report relate to the risks agencies face when those responsible do not carry out their duties effectively. For example:

- Some boards of directors have not adequately set direction and monitored the actions of senior management;
- Some supervising agencies have not adequately carried out their responsibilities for agencies accountable to them; and
- Some agencies have not provided the public with adequate performance information.

In Chapter 6, **Health**, we continue to report that the Department of Health needs to improve its supervisory practices by approving the annual budgets of district health boards before the beginning of the districts financial year. The Department also needs to improve its agreements with districts to establish a proper accountability relationship and to receive better performance reports. These would allow the Department to fulfil its supervisory role.

We continue to report on the need for boards of directors of health districts to set clear direction and improve the information they receive to monitor the actions of senior management. The directors also need to approve the processes that management has established to manage key risks to safeguard their assets.

A key risk faced by the Department is allocating resources to district health boards based on the health needs of the districts. In this chapter, we report on the progress that the Department has made on our 1999 recommendations to improve the Department's resource allocation processes.

We continue to report that the Board of Directors of the Uranium City Hospital needs to carry out its responsibilities to safeguard and control the Hospital's assets. The Department needs to ensure the Board carries out these responsibilities.

The Department needs to make legislators and the public aware of the financial condition of the health system. Part A of the chapter contains examples of financial measures to help assess the financial condition of the health system. The Department should include this type of information in its annual report.

In Chapter 7, **Part A – Liquor and Gaming Authority,** we report the results of our examination of Liquor and Gaming for the year ended March 31, 2001. During 2001, Liquor and Gaming needed to do more to supervise Saskatchewan Indian Gaming Authority's (SIGA) management of public money.

Since March 31, 2001, Liquor and Gaming has made good progress in improving the management of public money under the control of SIGA. The chapter explains what Liquor and Gaming has done to improve its practices. While there has been good progress, much work remains to be done. It will take time to make all the necessary improvements.

In Chapter 7, **Part B – Saskatchewan Indian Gaming Authority Inc.**, we report the results of our examination of SIGA. During the year ended March 31, 2001, SIGA's practices for managing public money remained inadequate. SIGA's previous Board of Directors did not spend public money with due care and did not operate with a corporate culture of transparency.

However, since March 31, 2001, SIGA has made good progress in improving its management practices. The chapter explains what SIGA has done to improve practices up to August 2001. Much work remains to be done. It will take time to make all the necessary changes. We will continue to monitor SIGA's progress.

In Chapter 8, **Intergovernmental and Aboriginal Affairs**, we report that our concerns with the management and accountability practices of the Department and the Trustees of the First Nations Fund continued for the year ended March 31, 2001.

Since March 31, 2001, the Department has made good progress in improving its practices. Due in part to the Department's actions, we see a significant change in the thinking of the Trustees. In the past, the Trustees said they were not administering the First Nations Fund created under *The Saskatchewan Gaming Corporation Act*. The Trustees now recognize that they are managing that Fund. Also, they intend to improve their management and accountability practices. The chapter describes what the Department and the Trustees need to do and what they have done up to October 2001. We will continue to monitor the progress of the Department and the Trustees.

In Chapter 9, **Justice**, we continue to report that the Department needs to improve its systems to track, enforce, and collect fines. The purpose of fines is to deter citizens from violating the law. Effective deterrents help make our communities safe.

We continue to report that the Office of the Public Trustee did not properly administer its clients' affairs for the year ended March 31, 2001 due in part to difficulties associated with its new computer system. Since March 2001, the Office has made good progress towards addressing the recommendations in our Spring 2001 Report. The chapter describes what the Department and the Office need to do and what they have done up to October 2001. We will continue to monitor their progress.

Population Changes

The Government must manage many risks related to the changing makeup up of our population. Our Aboriginal population is increasing and young. The rest of our population is decreasing and older. Also, more of our population continues to leave rural areas and move to the cities. These changes in demographics challenge government agencies in several ways. For example, education and post-secondary education programs will need to accommodate a smaller number of students and will need to accommodate more Aboriginal people. All agencies will need good succession plans so skilled workers will be available to replace retiring workers.

One of our focuses is to examine how government agencies are responding to risks caused by these changes in our population.

In Chapter 8, **Intergovernmental and Aboriginal Affairs**, we include an assessment of how well the Department is co-ordinating action across government agencies to achieve the Government's policy. The Government's policy is to improve the long-term future of Métis and off-reserve First Nations people and increase their participation in the Saskatchewan economy. We conclude that the Department had adequate processes to coordinate action, except for two concerns. The Department needs to align the participating departments' plans and receive written reports from them on their actual performance compared to their plans.

In recent reports, we reported how the Department of Education was managing risks related to changing demographics. Our 2001 Spring Report reported on the Department's management of the curriculum for the K to 12 education system. In our 1999 Fall Report – Volume 2, we reported on the leadership role of the Department as it relates to vulnerable children and youth. In Chapter 14, **Education**, we report on what the Department has done in response to our recommendation for improved monitoring of the movement of vulnerable children between schools and education systems.

Improving the Government's accountability

Our Office continues to focus on improving the Government's public accountability. Sound accountability relationships between the Government and the Legislative Assembly will strengthen the management of public resources. Sound public accountability relationships require:

- agreed-upon plans that are clear as to responsibilities, authority, resources, and expected results;
- reliable reports on actual results compared to planned results; and
- reasonable reviews of performance.

Over the last few years, the Government established two main accountability initiatives. The first initiative applies to the Crown Investments Corporation of Saskatchewan (CIC) and the corporations it supervises (e.g., Saskatchewan Power Corporation, Saskatchewan Telecommunications). This initiative is called the "Balanced Scorecard." The Balanced Scorecard is used to evaluate the achievement of objectives in the areas of innovation and growth, customer satisfaction, public policy and financial results.

CIC approved a policy in January 2000 requiring public reporting of key elements of the Balanced Scorecard in the annual reports of CIC and the corporations it supervises. The policy sets minimum disclosure requirements for 2000 and additional requirements for 2002.

The second main accountability initiative applies to government departments. This initiative started in 1999 when the Government established a "comprehensive government accountability project." The accountability project establishes an accountability framework that expects departments to focus on the results (outcomes) of their spending and activities. Departments are asked to set objectives, assign resources to achieve their objectives, manage their risks, and monitor their performance.

We commend the Government for continuing with these initiatives to improve its public accountability. The public benefits when accountability is strengthened because public resources are managed better. Also, legislators and the public have better information to understand, assess, and debate the Government's performance.

We continue to work with the Government's Accountability Project Group, which is helping departments use the Accountability Framework. The following highlights some of our other work to improve the Government's public accountability.

Financial statements are primary accountability documents. In Chapter 6, **Part B – Department of Health financial statements**, we have prepared financial statements for the Saskatchewan health system at March 31, 2001. The statements show the financial position and results of operations of the system. The statements show the system has assets of $1.2 billion and revenues and expenses of about $2.3 billion. The Department of Health does not provide this information. We think it should.

In Chapter 6, **Part A – Health,** we report that the First Ministers agreed to report on their health systems' performance. Legislators and the public need comparable and reliable information. We are working closely with the following organizations:

- the Department to ensure that legislators and the public receive reliable reports on the performance of the Saskatchewan health system; and
- all legislative auditors in Canada to ensure the information presented and the auditors' assurances thereon are comparable across Canada.

We are encouraged by this initiative. Legislators and the public need comparable and reliable information about health system performance.

Our 2001 Reports

In 2001, our Office issued seven other public reports to the Assembly. Exhibit 1 contains a list of those reports. If you wish to obtain copies of these reports, or wish to discuss or receive presentations on the contents of any of these reports, please:

- visit our website at:
  http://www.auditor.sk.ca/
- contact our Office by Internet e-mail at: or
  info@auditor.sk.ca
- write, phone, or fax us at:
  Provincial Auditor Saskatchewan
  1500 Chateau Tower
  1920 Broad Street
  Regina, Saskatchewan
  S4P 3V7
  Phone: (306) 787-6398
  Fax: (306) 787-6383

Exhibit 1

- *Special Report to the Legislative Assembly of Saskatchewan Regarding Changes to The Provincial Auditor Act, Bill 14 : April 2001*;
- *Report to the Legislative Assembly of Saskatchewan on the Financial Statements of Crown Agencies for Years Ending in the 2000 Calendar Year : April 2001*;
- *Report to the Legislative Assembly of Saskatchewan on the 2000 Financial Statements of CIC Crown Corporations : April 2001*;
- *Report of the Provincial Auditor to the Legislative Assembly of Saskatchewan : 2001 Spring Report* (June 2001);
- *Annual Report on Operations For the Year Ended March 31, 2001* (June 2001);
- *Report of the Provincial Auditor to the Legislative Assembly of Saskatchewan : Understanding the Finances of the Government : 2001 Fall Report – Volume 1* (September 2001); and
- *Business and Financial Plan For the Year Ended March 31, 2003 : As Presented to the Standing Committee on Public Accounts* (November 2001).

Exhibit 2

My colleagues at the Office of the Provincial Auditor of Saskatchewan are:

Ahmad, Mobashar
Anderson, Mark
Atkinson, Brian
Bachelu, Gaylene
Baronowsky, Tricia
Beblow, Jolene
Borys, Angèle
Brezinski, Curtis
Brooks, Nicole
Burrows, Jamie
Caldar, Chantara
Clemett, Tara
Creaser, Phil
DeCorby, Michelle
Deis, Kelly
Dickin, Deann
Duran, Jason
Duran, Joel
Ferguson, Judy
Fysh, Cindy
Grabarczyk, Rod
Harasymchuk, Bill
Heffernan, Mike
Huard, Brenda
Hungle, Angie
Jersak, Rodd
Kirchner, Carolyn
Knox, Jane
Kress, Jeff
Kuntz, Linda
Lacey, Shana
Lahti, Jay
Lahti, Kami
Lees, Trina
Lowe, Kim
Markewich, Dale
Martens, Andrew
Montgomery, Ed
Nyhus, Glen
Oldershaw, Mark
Orrange, Loyd
Paul, Charlene
Paul, Kent
Rybchuk, Corrine
Schiller, Rita
Schwab, Amy
Schwab, Victor
Shorten, Karen
Sommerfeld, Regan
Szaroz, Jennifer
Tomlin, Heather
Volk, Rosemarie
Walker, Sandra
Watkins, Dawn
Wendel, Leslie

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Information Services Corporation – LAND Project

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Executive summary

The LAND Project is a major investment that will transform the old paper-based Saskatchewan land titles system into an electronic system. The system also integrates land records with electronic maps and survey plans. The LAND Project is more than an information technology project. It includes major changes in policies, revenue model, business processes, culture, legislation and regulations, and ongoing organizational development. The projected budget is $58 million. Information Services Corporation (ISC) stated that the expenditures on the LAND Project to October 2001 are $38 million.

The objective of our audit was to assess whether ISC had adequate project management processes to implement the LAND Project. We focused on the project management processes ISC used to manage the implementation of this project in Moose Jaw. We have not assessed the merits of the LAND Project. That is a matter for the legislators and the public to debate.

The pilot implementation in Moose Jaw revealed problems that need fixing. This is normal given the size and complexity of the Project. ISC has recognized that it needs to make improvements in its processes to register titles, convert documents, improve computer performance, and train and support users. ISC informed us that it plans to make these improvements before implementing the LAND System in Regina.

Overall, we found that ISC had adequate project management processes to implement the LAND Project except for processes to measure, verify, and report on the LAND Project benefits. ISC demonstrated strong management commitment and adequate project management practices. We make five recommendations to help increase the likelihood that ISC will successfully complete this major project. We recommend that ISC should:

- strongly encourage key outside users to take training before conducting business using the LAND System and that ISC continue to monitor outside user feedback;
- set measurable and verifiable LAND Project benefits and report publicly on the achievement of all planned benefits;
- perform a post-implementation review of the LAND Project and make the results available to all government organizations;
- receive monthly reports on the comparison between actual costs to date on the LAND Project to the budget to date; and
- complete, test, and approve its business continuity plan.

Introduction

We are reporting on the Land Titles Automated Network Delivery system (LAND) Project in two stages. In our 2001 Spring Report, we described the criteria we intended to use to audit the project management processes used by Information Services Corporation (ISC) to implement the LAND Project. In this chapter, we describe the results of our audit.

The LAND Project is a large complex project that will transform Saskatchewan's paper-based land records at land titles offices into an electronic system (LAND System). Cabinet approved the LAND Project budget, early in 2000, at $58 million. The LAND System will integrate land records with the survey plans and the Saskatchewan Geographical Information System (GIS) formerly managed by SaskGeomatics Division of the Saskatchewan Property Management Corporation. The LAND Project will convert over one million titles and over 120,000 survey plans to electronic records.

The LAND Project is more than an information technology project. It includes major changes in policies, revenue model, business processes, culture, legislation and regulations, and ongoing organizational development. It will also convert millions of pages of paper documents to electronic records, reduce the number of staff in land title offices, and train staff and other LAND System users. ISC will also warehouse in Regina over four million cancelled titles and 6.5 million other land titles instruments, including mortgages and caveats.

The Government expects its investment to:

- reduce the time it takes to transfer or change a land title to less than 48 hours;
- reduce certain operating costs of the registration processes;
- provide Internet access to land titles;
- provide electronic registration and search services for land titles;
- simplify the registration processing rules;
- improve record-keeping integrity and security; and
- create new sources of revenue as primary users and the public can search titles, mineral ownership, maps, survey plans, and related information with their computers.

After the conversion, the official land title will be an electronic record. The LAND System will tie electronic titles into the GIS, which is an electronic map of Saskatchewan that is detailed enough to show city lots. The LAND Project also merges the eight land titles offices, the Chief Surveyor's Office, and SaskGeomatics into the ISC. The primary users of the LAND Systems are lawyers, surveyors, financial institutions, and provincial and local governments. Having many outside users presents unique challenges to ensure that their needs are met and that they receive adequate training and support to make effective use of the system.

ISC stated that the expenditure on the LAND Project to October 2001 are $38 million on a projected budget of $58 million. ISC is currently implementing the LAND System in Moose Jaw as a pilot because it is a small, less complex district and therefore is suited to pilot test the new LAND System. Regina is scheduled next and is much riskier because it is larger and more complex than Moose Jaw.

The pilot revealed problems that need fixing. This is normal given the size and complexity of the LAND Project. ISC has recognized that it needs to make improvements in its processes to register titles, convert documents, improve computer performance, and train and support users. ISC informed us that it plans to make these improvements before implementing the LAND System in Regina and the rest of the Province.

Surveys and literature show that large information technology (IT) projects are inherently risky and face many difficulties. Sound project management processes can reduce these risks and increase the likelihood of a project's success. We carried out this audit to provide the Legislative Assembly and the public with independent assurance on whether ISC has adequate project management processes to implement the Project. The audit allowed us to determine the strengths of ISC's processes and to identify opportunities for improvement. We expect the results of the audit to help ISC and other government organizations strengthen their project management practices.

History of the LAND Project

It is helpful to have an overview of the history of the LAND Project to understand the current project issues. In 1994-95, the Department of

Justice (Justice) received Treasury Board approval to design an automated land titles system. At that time, the LAND Project consisted of the conversion of land titles into electronic records and a computer system to register and record land records. Justice estimated the cost of the LAND Project at $20 million.

In 1996, Justice was asked to explore integrating the proposed Land Titles system to the GIS, thus creating a joint venture between Justice and SaskGeomatics. Integrating land titles to GIS significantly expanded the scope and the related risks of the LAND Project. In April 1998, after the design was substantially complete, Justice tendered for a contractor to help, build and implement the LAND System. Justice also hired the contractor to ensure it had the expertise to succeed with the LAND Project and a partner to share some of the project's risk.

In 1999, the estimated cost of the LAND Project increased to $58 million due to costs for: 1) tying land titles to GIS, 2) hiring a contractor, 3) increasing the estimate of storage and conversion costs, and 4) adding a contingency fund of 10% to pay for unplanned work.

In 1999, Justice still needed to get a secure source of revenue for each of the next three years to ensure it could complete the LAND Project. Justice did not have access to the land title revenue because it went directly to the General Revenue Fund (GRF). Justice had to compete annually with other government programs to get revenue from the GRF to pay for the LAND Project. Financing this long-term project on a year-by-year basis is risky because in any year, money may not be available due to other Government priorities. The LAND Project experienced delays waiting for money. To help secure money for the LAND Project, Justice updated its business plan requesting that Cabinet approve the establishment of a Crown corporation, to build and operate the LAND System.

In January 2000, Cabinet approved the establishment of a Crown corporation under the Crown Investment Corporation of Saskatchewan (CIC) and later named it the Information Services Corporation. Later, the Corporation received approval to obtain financing of $60 million. The LAND Project now had access to the land title revenue and long-term financing to complete the project without further financing delays. Setting up the Crown Corporation came with a cost. ISC had to increase its fees to compensate the GRF $8 million for lost revenue from land title fees and still make an adequate return as a Crown. Although the LAND Project was approved in principle in 1996, it needed to be moved to a Crown in order for it to obtain secure financing because of the limitation imposed by the accounting and budgeting practices of the GRF. These limitations do not necessarily support good management decisions.

ISC planned to start the implementation of the LAND System and the conversion of the land tiles in Moose Jaw in May 2001 and to complete the implementation throughout Saskatchewan by the summer of 2002. ISC delayed the initial Moose Jaw implementation by six weeks, to late June 2001. ISC has also delayed the Regina implementation until ISC is satisfied the LAND System meets the outside users needs. ISC told us that the forecasted cost of the project is still $58 million and that all districts will be implemented by the summer of 2002.

Audit objective and scope

The objective of our audit was to assess whether ISC had adequate project management processes to implement the LAND Project up to July 2001. We focused on the project management processes ISC used to manage the implementation of the LAND Project in Moose Jaw. We followed the Standards for Assurance Engagements established by The Canadian Institute of Chartered Accountants.

The presence of good project management practices does not guarantee that the project will be completed on time, within budget and as planned. However, good project management practices greatly increase the likelihood of success. Studies have indicated that there are both potential benefits and risks associated with the LAND Project. We have not assessed the merits of the LAND Project. That is a matter for the legislators and the public to debate. However, we did audit the adequacy of ISC's processes to track and report on the realization of the LAND Project's planned benefits.

Audit criteria

Auditors use criteria to evaluate matters that they audit. The criteria described in the following paragraphs set out the practices that we expected ISC to use implementing the LAND Project. The criteria are based upon international standards, literature, and reports of other auditors. Management agreed with the criteria.

In particular, we used the Project Management Institute's standard, entitled *A Guide to the Project Management Body of Knowledge 2000*, as the management framework to support the criteria. We also reviewed the Auditor General of Canada's reports, the Canadian Institute of Chartered Accountant's Criteria of Control (CoCo) and the Information System Audit and Control Foundation's *Governance, Control and Audit for Information and Related Technology* (CobiT) to ensure our criteria are appropriate.

To implement the LAND Project, ISC needed adequate:

- ways to maintain senior management and stakeholder commitment to the project;
- processes to track and report on the realization of the project's benefits; and
- project management practices and reports.

Audit conclusion and findings

We found that ISC had adequate project management processes to implement the LAND Project except for processes to measure, verify, and report on the LAND Project's benefits.

We make five recommendations to improve the likelihood of ISC successfully completing this major project. We recommend ISC should:

- strongly encourage key outside users to take training before conducting business using the LAND System and that ISC continue to monitor outside user feedback;

- set measurable and verifiable LAND Project benefits and report publicly on the achievement of all planned benefits;

- perform a post-implementation review of the LAND Project and make the results available to all government organizations;

- receive monthly reports on the comparison between actual costs to date on the LAND Project to the budget to date; and

- complete, test, and approve its business continuity plan.

To carry out our audit, we used a risk-based approach to identify and examine relevant project management processes. Sources of audit evidence included: LAND Project minutes, policies, decision documents, position descriptions, contracts, procedure manuals, project management plans and reports, and correspondence. We interviewed key officials of ISC. We also reviewed ISC and CIC minutes relating to the LAND Project.

Criterion 1 – Processes to maintain senior management and stakeholder commitment

Senior management commitment

We expected ISC to have project management processes to obtain and maintain strong senior management commitment to the LAND Project. Senior management commitment is a common and very important feature of successful projects. These processes become more crucial if a project spans many years, involves significant changes, and/or is very complex. We expected ISC to show senior management commitment by having good governance processes to help achieve its objectives, by being accountable to the Government for its success, and by showing strong leadership.

Good governance processes foster senior management commitment. We defined project governance as a set of relationships and processes to direct and control the organization in achieving the project's objectives. We looked at ISC's governance processes and the committee structure used to implement the LAND Project. Governing committees included the ISC Board, ISC Executive Committee, and the LAND Project Steering Committee. In addition, many other committees contributed to governance by monitoring and responding to issues about the development and testing of the LAND System. The committees contributed to good governance by addressing key issues and holding the project team accountable.

Accountability fosters commitment. Accountability starts with setting expectations for performance, followed by reporting on performance, and finally reviewing the organization's performance. ISC demonstrates accountability by reporting regularly to CIC's Board on the progress of the project and publicly in its annual report. We discuss the measurement, reporting, and monitoring of expectations in Criterion 2.

Strong leadership also fosters commitment. In our 2000 Fall Report – Volume 3, Chapter 1A, we discuss the importance of leadership in government to implement an important initiative – performance reporting:

> The long-term commitment and support of legislators, ministers, and senior government officials is essential if the Government is to move to achieve, and be accountable for, results…

Justice, and later ISC, showed leadership throughout the project approval process. Prior to the establishment of ISC, management demonstrated commitment to the vision of an automated land system despite the delays caused by the uncertainty of financing for the LAND Project. It is critical to any project to have committed champions. The president and the senior project manager are the key champions of the LAND Project.

In conclusion, ISC showed strong senior management commitment to the LAND Project through good governance processes, proper accountability, and strong leadership.

Stakeholder commitment

Senior management obtains and maintains stakeholder commitment by seeking information about their needs, communicating how the project meets their needs, and training them to obtain the benefits of the system. Stakeholders include lawyers, realtors, surveyors, other departments, governments, and non-governmental organizations. Outside users are stakeholders who conduct business using the LAND System and do not work for ISC. It is also important that stakeholders be informed of, and have input into, the development of a project. This promotes stakeholder commitment and assists implementation. The following processes helped enhance stakeholder commitment to the Project:

- the project team consulted early with stakeholders to seek information about their needs;
- ISC delivered user training to outside users;
- ISC conducted surveys and meetings to get feedback from outside users on the implementation in Moose Jaw; and

- ISC used media releases, newsletters, meetings, and their Web site to keep the public informed about the LAND Project.

Maintaining stakeholder commitment presents unique challenges to ISC to ensure that stakeholder needs are met and that the outside users receive adequate training and support to make effective use of the system. The challenge is increased because of the long-term nature of the project and the challenges of getting people to accept a system that is very different from the old paper system. Because outside users are beyond its direct control, ISC cannot mandate training. Outside users' problems with system performance, registration processes, training and support are public problems. Problems can erode public confidence. ISC must continue to communicate with the stakeholders and strongly encourage key outside users to take the training before using the LAND System. We conclude that ISC had adequate processes to maintain management and stakeholder commitment to implement the LAND system in Moose Jaw. However, to improve the effectiveness of the LAND system:

1. **We recommend that Information Services Corporation should strongly encourage key outside users to take training before conducting business using the LAND System and that ISC continue to monitor outside user feedback.**

Criterion 2 – Processes to track and report on realization of the LAND Project's benefits

We expected ISC to set quantifiable and verifiable benefits in its business case that were consistent with its vision, strategic goals, and objectives. The quantification of benefits and the measurement of results are key steps to accountability. We expected the business case to evolve to support key decisions and changing conditions.

Developing a strong business case is a critical process to selecting the right project and realizing the benefits of the project.

> A business case puts the investment decision into a strategic context, and positions the business objectives and options that will affect both the decision and the investment itself. A business case provides the information necessary to make a decision

> about whether a project should proceed. It is the indispensable first activity in the lifecycle of an IT investment.
>
> A business case is a detailed investment proposal. It provides an analysis of all the costs, benefits and risks associated with a proposed investment and offers reasonable alternatives. [1]

The LAND Project's business case included objectives and outlined stakeholder needs. It also assessed alternatives for achieving objectives and meeting stakeholder needs. The alternatives considered were: improving the manual system; buying and adapting another jurisdiction's automated land system; or building a LAND System. The reasons for building a LAND System were given. Also, contractors were encouraged to use existing systems in their bids if it could meet the LAND Project needs.

The business case also included the estimated cost and anticipated benefits of automating the land titles. The quantifiable benefits were maintaining profitability and improving land title registration to less than 48 hours while keeping the eight regional offices. The business case also included the following qualitative benefits:

- consistent title processing across the province;
- simplified registration procedures;
- easier access to information;
- improved functions and services; and
- improved accuracy of titles.

The business case evolved from 1996, but still described only the two benefits in quantifiable terms. Other expected benefits, such as improved function and services, should be published with verifiable and measurable targets. ISC is unable to measure these benefits now because it did not set measurable targets.

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[1] Project Management Office. Chief Information Officer Branch, Treasury Board Canada (February 1998). Creating and Using a Business Case for Information Technology Projects.

The business case assumed increased revenues and a drop in operating costs to meet its profitability targets. The business case stated that the fees would be set prior to the LAND System's implementation. ISC developed a land titles revenue model based on its anticipated volume of transactions, growth rate, adoption rate, and pricing to meet profitability expectations and Cabinet requirements. ISC based many of its fee decisions on historical volumes and these new fees must be monitored because some historical volumes may not directly relate to ISC's new processes. Estimating service levels is risky when there is little past activity to determine if predicted levels of services are reasonable. ISC hired an expert to give assurance that the model and assumptions are supported. The expert gave assurance that most of the historic volumes had support. ISC must closely monitor its achieved service volumes and revenues to ensure its fees are adequate to meet its return on investment. If volumes are less than expected, ISC may need to request a change in its fees from Cabinet. Cabinet approved the fees and announced them on June 21, 2001.

Important qualitative benefits were set out in the business plan. However, it is difficult to measure and report on the success of the LAND Project without verifiable and measurable targets for these qualitative benefits. Setting measurable performance targets and reporting on them would help ISC account for the success of the LAND Project.

We conclude that ISC had adequate processes to track and report on the realization of the project's benefits except ISC lacks measurable and verifiable targets for some of the expected LAND Project benefits. ISC should report publicly on the achievement of all planned benefits.

2. **We recommend that Information Services Corporation should set measurable and verifiable LAND Project benefits and report publicly on the achievement of all planned benefits.**

Criterion 3 – LAND Project management practices and reports

We expected ISC to have good project management systems and practices to control the implementation of the LAND Project. Good project management practices involve the use of project teams with the necessary experience, skills, and leadership to manage the project. Good project management practices include planning and reporting progress against the plan. The LAND Project team also needs to manage risk, ensure quality work, and communicate progress and successes. Good project management systems and practices help to ensure that deadlines are achieved, costs are contained, and needs are met.

We discuss our findings for this criterion under the following headings: risk management, scope management, project monitoring, communication management, and human resource management.

Risk management

Risk management includes processes to plan, identify, monitor, and respond to risks. Risk management includes a threat and risk analysis, establishing a plan to reduce key risks to an acceptable level, processes to monitor risks during the project, and reporting on responses to risk. We examined the processes ISC used to monitor and respond to risk leading up to and during the implementation in Moose Jaw.

ISC has taken steps to manage the risk associated with the LAND Project. ISC used a risk matrix that set out risks for each component of the LAND Project. The project team regularly reported to the LAND Project committees and subcommittees on risks. ISC reported on risk by describing the likelihood, severity (impact on the LAND Project), mitigation, and who was responsible for mitigation and further monitoring.

We conclude that the risk management processes used by ISC up to and including the implementation in Moose Jaw were adequate. Here are examples of how ISC managed risk:

- Integration risks – The LAND Project is large and complex. It was important to reduce the risk of work getting out of step between system development, business process development, legal and policy development, and organizational planning. The Integration Committee and the Project Steering Committee were responsible to mitigate this risk. This risk became critical in late 2000 and ISC reduced this risk by delaying the implementation of the project in Moose Jaw and later in Regina.

- Contracting risks – The LAND Project is a complex project with a major contribution from an outside contractor. The contracts included off-ramps that gave ISC the right to cancel the contract for a given price at key times in the project. ISC separated the contract into multiple work orders. In addition, ISC reduced the complexity of the system by breaking it down into nine independent modules. ISC further reduced its risks by negotiating fixed-price contracts for major elements of the LAND Project. A fixed-price contract shifts some risk to the contractor. ISC hired outside consultants and used employees who were experienced in IT to ensure that the contractor delivered the expected products.

Scope management

Scope management involves processes to ensure that the project includes only the work required to make the project a success. It includes processes to define and control what is included in a project. Scope management includes planning the project, defining the needs, verifying the needs and managing changes to needs throughout the project. We examined the processes used by ISC to ensure that the LAND system includes only the work required up to and including the implementation in Moose Jaw.

ISC used the following processes to manage the scope of the project:

- Planning – ISC developed a concept document, a stakeholder needs analysis, and a business case to plan the project to meet the defined needs, which included making the applications flexible enough to use for other purposes. ISC also prepared plans to: update the laws and policies to use electronic land titles; move, store, and convert the old paper documents; and to train employees and key outside users to use the automated LAND System.

- Defining needs – ISC worked with its contractor to develop a detailed design document. This document detailed all the processes, computer screens, and reports needed in the system.

- Verifying needs – ISC verified needs primarily with acceptance testing. Acceptance testing started with a testing plan. The plan explained how to test and gave the acceptable error rates. ISC classified errors according to severity by application and for the overall system. It required all critical errors to be fixed before the system was implemented. The Implementation Committee regularly received testing statistics. ISC also ensured the policy and legal group were involved in testing to ensure its needs were met. Also, the external user community was kept involved through focus groups and training. ISC used the feedback to fix the system, improve implementation, and amend training. Also, ISC sampled titles from all districts to ensure that all types of transactions were analyzed in estimating the cost of conversion.

- Managing changes - ISC had a strong defect and change management process to track errors and scope changes, cost them, and track their progress to completion. ISC used a computer program to track and report on all defects or errors. The defect tracking system also tracked changes required to the system. ISC and the contractor developed a change process to resolve disputes and cost scope changes. All changes were tracked and priced to help ensure needs were met within budget.

  As part of the conversion plan, ISC closed the Moose Jaw office for one week to move all paper to Regina and bring the Moose Jaw staff in for special training and to provide help with conversion. ISC created defined processes for the conversion of documents and title changes.

- ISC also used independent advisors to ensure that they were doing the right thing in key areas. They sought advice on: the technology used, the Project's readiness for e-commerce, its "commercial feasibility", its security, and its support for the new fee schedule. The advice varied, but primarily supported the project. Independent advice from experts is a valuable tool to ensure projects meet their objectives.

In conclusion, ISC used adequate scope management processes in the LAND Project. As the implementation moves from Moose Jaw into districts that are larger and more complex, like Regina, the Project's risks will change. It will be important for ISC to monitor whether the LAND System continues to meet stakeholder needs. It is also important, after the LAND Project is complete, to document the lessons learned on this project. ISC should publish the results to help it and the rest of government to improve project management practices for future projects.

3. **We recommend that Information Services Corporation should perform a post-implementation review of the LAND Project and make the results available to all government organizations.**

Project monitoring

During the course of a project, the project team needs to monitor how well it is managing costs, time, tasks, and deadlines, and take action when needed.

We examined ISC's processes to monitor and control costs. These processes closely link with scope management to ensure changes are costed and tracked. We examined the processes ISC used to monitor if the LAND Project was on time, tasks were completed, and deadlines were met.

The key to controlling time, tasks and deadlines of the LAND Project in the months prior to implementation in Moose Jaw was a weekly LAND Project Status Report and supporting documents. The LAND Project Status Report and its related documents tracked the status of: testing, procedural documentation, regulations, training, outstanding tasks, the GIS conversion, and the plan conversion. The LAND Project Status Report also tracked and classified significant LAND Project risk.

ISC had processes to track, on a monthly basis, the approved budget and the forecasted cost to complete. ISC also developed its budget and recorded the full cost of the LAND Project, including all staff costs. ISC used change requests to set out expected costs or savings related to proposed changes. It used this information to update its forecast to complete by key component of the LAND Project. The report also included the forecasted amount to be drawn from the contingency fund and other savings. However, the reports to senior management did not include a comparison of actual costs of the LAND Project to date to the budgeted cost of work completed. ISC stated that it has spent $38 million on the LAND Project to October 2001. It has forecasted that changes and delays will use up its contingency fund by the end of the LAND Project. The changes and delays will make it a challenge for ISC to meet the budget of $58 million. An analysis comparing actual cost to the budgeted cost of work performed would give senior management an indication if the work completed is within budget and will help them assess if the forecasted cost to complete the LAND Project is reasonable.

We conclude that the processes to report the status of the Project's costs, time, deadlines met/passed and management action was adequate, except that ISC did not compare the actual costs to the budgeted cost of work completed, to ensure work completed is within budget.

4. **We recommend that Information Services Corporation should receive monthly reports on the comparison between actual costs to date on the LAND Project to the budget to date.**

Communication management

Communication management involves processes to ensure the timely and complete creation, movement, and storage of information on a project. It includes documenting the project's systems and processes, the project's history, its training, and stakeholder communication.

We examined ISC's management of internal and external communications for the project. We also looked for documentation of systems, user processes, and disaster recovery.

We found that documentation of meetings and decisions was comprehensive. There was monthly reporting to key committees on financial status, schedules, and project risk. ISC had appropriate systems to track changes to the system and system defects. We also observed that detailed flowcharts, outlining the conversion processes, were developed and posted. These charts helped the staff doing the conversion to understand the processes and carry out their individual tasks.

However, ISC did not have all the LAND System documentation in place before it implemented the LAND Project in Moose Jaw. For example, user manuals, technical descriptions of systems, security, and disaster recovery plans were not all documented and approved. It is important that documentation is complete before developers and implementers start to leave and the knowledge is lost.

Due to the size and complexity of the system, it is important that a threat and risk assessment be done to help complete, test, and approve a business continuity plan. The business resumption plan will provide senior management and the users confidence that, in the event of a disaster, the LAND System will resume operations within an acceptable time.

We conclude that the processes used to ensure the timely and complete creation, movement, and storage of information on the LAND Project were adequate except for the completion, testing and approval of a business continuity plan before implementation of the LAND System in Moose Jaw.

5. **We recommend that Information Services Corporation should complete, test, and approve its business continuity plan.**

Human resource management

Human resource management involves processes to make the most effective use of the people involved in a project. ISC used processes to make the most effective use of people involved in a project by recruiting staff from Justice and SaskGeomatics to build a qualified team. ISC also trained some of its project staff to become project management professionals. ISC then filled the gaps with qualified people from the contractor or from other contractors. The project manager responsible for project status reports was a professional project manager, and a number of staff on the LAND Project were trained in project management practices.

With its different components and phases, the LAND Project required a unique organizational structure. ISC set up an organizational structure for the LAND Project that included the following components: legal/policy; system development; infrastructure and support; and human resources. ISC also established the e-business centre to manage the new LAND System in a separate location from the conversion centre, which converts titles and integrates them with electronic survey plans and the GIS.

ISC faced two main human resource challenges moving to the new LAND System. First, ISC would need significantly less staff to run the LAND System after its implementation. Second, the staff would require different skills and training than the staff required under the old system.

ISC managed these challenges by communicating with its staff and the union before the start of the LAND Project about the proposed changes and involving its staff and the union in planning for the changes. ISC reached an agreement with the union to staff key positions on the LAND Project team and the new LAND System with staff employed in Land Titles, Surveys and SaskGeomatics. ISC also used the Organizational Planning Committee, with representatives from all land title offices and from different levels of the organization, to help manage human resource challenges. Also, early in the LAND Project, ISC offered training to the Land titles staff in career planning, change management and computer skills.

We conclude that the human resource project management processes were adequate.

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Electronic service delivery in Government

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Executive summary

The Saskatchewan Government has a plan for increasing its citizens' access to information and services through electronic service delivery (ESD) using the Internet. The benefits of using ESD include lower costs and better quality of service for its citizens.

The Government has set targets for making information and services available. One target is that all government forms will be available online (on the Internet) by 2002. Another target is that 90% of transactions between the Government and its citizens will be available online by 2004.

The delivery of services electronically introduces new risks. They include the risk of disclosure of confidential or private information, the risk of citizens' dissatisfaction with government services, and the risk of financial losses to citizens or to the Government.

This chapter sets out the practices that agencies should use to successfully implement ESD and increase public confidence in ESD. Government agencies should ensure that they have adequate processes and strong policies for the following practices:

- processes that promote accountability for success,
- human resource planning,
- information technology infrastructure,
- information management policies, and
- security and privacy policies.

Our office plans to examine certain policies and processes that agencies use in their projects to deliver their services electronically. We will use practices set out above to make our assessments. We will report the results of our work in a future report.

Introduction

The Saskatchewan Government has outlined a plan for increasing its citizens' access to information and services through electronic service delivery (ESD). Its plan is to have some of its programs and services available online. Online means delivering services over the Internet. This can potentially have benefits for the Government and its citizens[1], but it also introduces new risks.

In this chapter, we look at the potential benefits and risks of the Government providing services using ESD. We also outline five good practices that the government and its agencies should follow when carrying out a project to deliver their services electronically. These practices are not unique to ESD, however, they help manage the specific risks of an ESD project. We will also use these practices to help evaluate future government ESD projects.

The benefits that the Government may realize from using ESD include lower costs and a better quality of service to its citizens. Delivering services electronically may be less costly than other methods. One example is providing an application form online. This could eliminate the need for distributing printed copies of the form and the assistance of a government employee. This allows employees to do other tasks.

Citizens may also find it more convenient to obtain information or services online rather than by visiting the agency's offices. With online services, citizens can obtain information faster. If agencies make the services available online, the services can be offered 24 hours a day, seven days a week as a convenience for citizens.

The delivery of services electronically introduces new risks, including the risk of:

- disclosure of confidential information;
- disclosure of private or personal information;
- citizen dissatisfaction or frustration with the electronic delivery of government services;
- financial losses to citizens or to the Government;

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[1] Citizens can be members of the public, businesses, municipalities, school boards, or other agencies external to the provincial Government.

- projects being late, over budget or incomplete; and
- legal liability.

The Internet is widely available. Over 40% of Canadian households report that they have the Internet at home or at work. In Saskatchewan, the percentage is somewhat lower. There are also other ways to access the Internet. Most public libraries allow free access to the Internet. Many educational institutions such as schools, colleges, and universities have Internet access available for their students.

The Saskatchewan Government recognizes the importance of the Internet to deliver services to its citizens. "Electronic service delivery is the key to meeting the service needs of Saskatchewan's widely dispersed population, in a timely and cost-effective manner."[2] Given the significant number of citizens that can access the Internet, ESD or e-government is a logical use for the Internet. Also, the Government needs to ensure that its citizens have access to Internet training to help them access government programs and services.

The Government has set targets for making information and services available. Two of the targets are:

- having all government forms available online by 2002, and
- having 90% of transactions between the Government and its citizens available online by 2004[3].

The Government envisions its citizens having access to e-government (ESD) through a single website or window. Further efficiencies can be gained with co-operation from all levels of government and various government agencies. This co-operation could make it easier for citizens to access programs and services over the Internet without needing to know what level of government or which government agency they need to contact.

The Saskatchewan Government has recognized that it can gain efficiencies through e-government. Over the last few years, it has started to offer services over the Internet including:

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[2] Saskatchewan Economic and Co-operative Development, Information Technology Office (March 2001). *E-government in Saskatchewan.* page 1.
[3] Ibid., page 6.

- Most agencies (departments, Crown corporations, boards and commissions) have developed websites that allow the public to learn more about their agency.
- The Government has developed a website that is the 'front door' to most agencies[4]. The Government recently added a central phone directory, which includes e-mail addresses for government employees.
- Some agencies have started to offer their services over the Internet. Many forms and documents are available online, including the Saskatchewan statutes. Saskatchewan Finance allows businesses to file and pay their provincial taxes online with their Saskatchewan Electronic Tax Services (SETS). Also, citizens can purchase products and services online, using credit cards, such as:
    - Saskatchewan Pension Plan contributions;
    - fishing and hunting licenses from Saskatchewan Environment and Resource Management; and
    - educational materials from Saskatchewan Education.

The Government is committed to increasing Internet access for the delivery of its products and services. It has started a Government Online (GOL) initiative to assist government departments in the development of specific Internet projects that will allow the public to access selected government services and conduct transactions online. Also, over the past several years, the Government has approved funding for a number of other initiatives, including:

- the electronic registration of land titles. A key part of Information Services Corporation's system is a link from electronic land title registrations to electronic maps (see Chapter 1 – Information Services Corporation – LAND Project);
- Saskatchewan Health Information Network's initiatives designed to improve the delivery of health services within the province;
- access to post-secondary education courses through the Internet. This allows students to take courses that are not normally offered in the student's community; and
- the development of the CommunityNet that will expand Internet access to over 350 communities in Saskatchewan.

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[4] The website address is http://www.gov.sk.ca/.

The above initiatives will help the Government reach its goal of improving Saskatchewan citizens' access to government information.

Electronic service delivery in other jurisdictions

All levels of government are taking advantage of the Internet to provide information and to improve services to its citizens. In 1998, the Government of Canada developed an electronic commerce strategy document.[5] It recognized the need to take advantage of the Internet and prepared a plan that would allow government and non-government organizations to make full use of the Internet. As well, a number of federal government agencies sponsored a group to look at the issue of e-government. The group's report notes that e-government could result in a government that is "faster and smarter."[6] One of the issues raised in the discussion of an e-government is the concept of a single window where people can go to one place as a starting point to access government information and services. Also, this single window concept should make it easier for citizens to interact with government. For example, the single window could allow you to change your address for many government agencies in one visit to a central location.

As well, other provinces have made a commitment to ensuring that their citizens are able to take advantage of the Internet. They are improving access and the way they deliver their services. Their initiatives include improving Internet access to communities and offering their programs and services online.

Good practices

As the Internet and electronic service delivery (ESD) are relatively new topics, the best practices are evolving. Agencies that are planning to undertake ESD should ensure that they have adequate controls in place.

The following practices will assist agencies to implement ESD successfully and increase public confidence in ESD:

- adequate processes that promote accountability for success,

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[5] Industry Canada (June 1998). *The Canadian electronic commerce strategy.*

[6] Alcock, Reg and Lenihan, Donald G. (January 2001). *Opening the e-government file: governing in the 21st Century: results of the crossing boundaries cross-country tour.* page 6.

- adequate human resource planning,
- strong IT infrastructure,
- strong information management policies, and
- strong security and privacy policies.

We consulted with the Information Technology Office on these practices. The remainder of this chapter will explain the above practices. We encourage agencies to use these practices when developing their ESD projects.

Processes that promote accountability for success

To be accountable for successful implementation of ESD, agencies need a plan; they must publicly report on the plan; and they must monitor the results of the plan. We would expect agencies, that plan to make significant use of ESD, to address ESD in their strategic plans. Also, these agencies should:

- document how they plan to implement ESD;
- document their overall goals and objectives, measurable targets, communication strategies, funding requirements, and timelines for their ESD plans;
- set a requirement for reporting their ESD plans and monitoring their progress to ensure that they appropriately carry out their ESD plans; and
- set overall goals and objectives for ESD consistent with and coordinated with the overall strategic plans for the Government.

For individual ESD projects, we expect that agencies have a strong business case for the project including identification of the full costs of the project and a comparison of those costs to the expected benefits. Procedures should be in place to ensure that the project meets the needs of the users. In ESD projects, the primary users are outside government, which presents unique challenges to ensure government considers their needs. As with any significant project or initiative, agencies need to plan adequately. For individual projects, standard project management processes should be in place to assist in managing the implementation of the projects.

When a number of agencies undertake an ESD project with a common goal, it is important to determine how they are made accountable for the projects success. Agencies need to put a process in place to co-ordinate cross-agency ESD projects. For more information on processes over cross-government initiatives, see Chapter 8 – Intergovernmental and Aboriginal Affairs: Coordinating action across government.

Agencies need to ensure that they have the information technology (IT) architecture to allow for the efficient use of information technology. A good IT architecture is a plan that links the right computer technology with the right systems and the right operational processes to ensure that all systems work together effectively.

Human resource planning

The use of ESD introduces new human resource issues. ESD is a new and rapidly growing area. Employees involved with ESD need to be appropriately trained. Agencies will need to ensure that there are sufficient human resources to meet the expected demand. As well, ESD and especially electronic commerce initiatives may require human resources 24 hours a day and seven days a week. To address these issues, we expect agencies using ESD to have appropriate human resource plans to ensure that there are a sufficient number of personnel with the knowledge, skills, and abilities to effectively implement and operate the planned ESD initiatives.

Agencies will need to ensure that they can sustain the ESD. Once the product or service is available electronically, citizens will expect the service to be available and the information to be up to date. To ensure this, agencies should document their systems and have a plan to manage staff turnover.

Information technology infrastructure

A strong information technology (IT) infrastructure, including computer hardware, networks, and software, will help citizens obtain easy and reliable electronic access to government. We expect agencies that deliver services electronically will have the appropriate and sufficient IT infrastructure to ensure that systems operate cost effectively and securely.

Agencies are continually offering new services online and it is difficult to anticipate the demand for these services. If the IT infrastructure cannot adequately handle the increased volume, the service may become slow or unreliable. We would expect agencies to have policies and procedures related to IT infrastructure including hardware and software guidelines, capacity planning, and strategies for dealing with technology changes. An agency could also develop policies to encourage sharing and the use of common IT Infrastructure where possible. This co-operation would also help to ensure that there is sufficient IT infrastructure to meet the demands of the users.

Information management policies

Successful implementation of ESD will require information to be well organized and easily accessible. With the advancement of technology, more and more information is, or will be, available in an electronic format. The Internet has a vast amount of information that is sometimes difficult to sort through. Agencies will need policies for the displaying, storing, retrieving, and disposing of electronic information. As agencies make more services available to citizens, they will expect government websites to have a consistent look and feel. Citizens will also expect agencies to collect and display information in a consistent way.

Agencies could gain efficiencies by sharing key information. For example, agencies could store certain key information in one location rather than having to maintain it in several locations. Also, if agencies share common information, they could update it in one step for all agencies. Communication among agencies is essential to help move to systems that are more common and have a more consistent format for data storage. Common systems and data formats enable agencies to easily share common information. Citizens need to be assured of the availability of electronic services and the protection of their privacy.

Security and privacy policies

When conducting business over the Internet, citizens are concerned with the security and privacy of their personal information, and reliability of the service[7]. Agencies will need to ensure that there are policies and procedures to address these concerns.

To establish citizens' confidence in ESD, agencies need to have strong security and privacy policies. Security policies should balance the value of the access to information against the most likely threats and the cost of each form of protection. We expect agencies would set policies and procedures to ensure the confidentiality, integrity, privacy, and availability of their systems. The policies and procedures should be consistent with the security policies set out by the Government. Policies and procedures specifically related to ESD would include areas such as physical controls, logical controls, encryption, and the protection of privacy.

To give consumers assurance on the reliability (availability, security, integrity, and maintainability) of Internet sites, new assurance services are being offered. The Canadian Institute of Chartered Accountants (CICA) and the American Institute of Certified Public Accountants (AICPA) have introduced an assurance service product called Web Trust seal. The seals assure consumers that the organization's systems meet a set of security principles and criteria. To obtain a security seal, the organization must have its systems examined by a licensed public accountant and meet the security principles and criteria. Other companies offer services to certify the name and web address of the site.

Our plans

Our office plans to examine certain policies and processes that agencies use in their projects to deliver their services electronically. We will look at these projects to see if they follow the good practices listed above. Our work will include the review of key documents, review of information available on the Saskatchewan Government's website and interviewing selected key personnel.

We will report the results of our work in a future report.

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[7] Industry Canada (June 1998). *The Canadian electronic commerce strategy*. page 13.

Glossary

Electronic commerce – The buying and selling of products and services over an electronic medium such as the Internet. A key component of electronic commerce is the payment for the goods or services through electronic means such as the transfer of credit card information electronically or the transfer of funds directly through a bank.

Electronic government (E-government) – The use of technology, particularly Web-based Internet applications, to enhance the access to and delivery of government information and service to citizens, business partners, employees, other agencies, and entities.[8]

Electronic service delivery (ESD) – The delivery of services electronically such as through the Internet. Examples include having information available on your website that your customers can access or having forms available online that customers can complete and send in electronically. ESD includes electronic commerce. ESD in government is also known as e-government.

IT architecture – The overall design or structure of the infrastructure of a computer system.

IT infrastructure – The underlying base of hardware and software needed for a computer system including but not limited to communication equipment, system servers, and operating system software.

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[8] McLure, David L., The United States General Accounting Office (July 2001) *Electronic government* (GAO-01-959T), page 1.

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Reporting on infrastructure

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Executive summary

The Government of Saskatchewan has a significant investment in public infrastructure—over $14 billion. The Government uses this public infrastructure (e.g., roads, dams, power plants) to provide a wide range of public services.

The public needs good information to understand and assess the Government's decisions about public infrastructure.

In this chapter, we describe the contents of public reports that would be useful to the public. Public reports about infrastructure should briefly describe:

- the capacity of public infrastructure;
- the extent to which the use of key infrastructure has achieved planned results; and
- the strategies used to manage the major risks of infrastructure.

We also describe our plans to audit the contents of some public reports. We plan to use the audit to highlight specific ways that government agencies can improve their public information about infrastructure

We encourage government agencies to use this chapter to help them keep the public informed. We encourage legislators to consider whether public reports provide reasonable information for the public to understand the Government's decisions about infrastructure.

Introduction

Provincial governments use public infrastructure (e.g., airports, roads, bridges, dams, power plants, communications networks, buildings) to provide a wide range of public services. In Chapter 4 of our 2000 Fall Report – Volume 3, we discuss the key risks that governments face related to their investment in infrastructure. To reduce these risks, governments must adequately manage how they:

1. plan for infrastructure needs
2. set clear responsibility for infrastructure
3. maintain the capacity of infrastructure
4. maintain good information, and
5. keep the public informed.

In this chapter, we focus on the fifth of these areas, that is, keeping the public informed. This chapter describes adequate government reports to the public about infrastructure. We encourage government agencies to use this chapter to improve their public information about infrastructure.

This chapter also sets out our plans to audit the contents of some public reports on government infrastructure. Through this audit, we expect to identify practical ways that government agencies could report on infrastructure. We look forward to discussions with government officials and legislators on how government agencies can improve their public information about infrastructure.

Why keep the public informed?

The Government uses infrastructure to deliver important public services (e.g., transportation, communications, energy). In Saskatchewan, the Government has over $14 billion[1] of infrastructure. This includes most of the infrastructure available to the Government whether it was purchased, constructed, or leased.[2] The Government spends a significant amount annually to renew public infrastructure. In 2000-01, the Government spent over $667 million[3] to buy or improve public infrastructure. In addition, it spends a significant amount of public money annually to operate and maintain public infrastructure.

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[1] Based on March 31, 2001 summary financial statements and other government reports.

[2] For more detail, see Chapter 4 of our 2000 Fall Report – Volume 3.

[3] This does not include General Revenue Fund capital expenditures of approximately $295 million

Infrastructure is expensive and is used for many years. The public needs good information to understand and assess the decisions that the Government makes about infrastructure. When the public does not have good information, it may result in less public confidence about the Government's ability to provide essential public services at the expected level of quantity, quality and cost. In addition, when the Government provides information to the public, it may improve how the Government manages public infrastructure.

In 1994 and 1995, the Standing Committee on Public Accounts recommended that the Government:

- report on its investment in infrastructure in the Government's summary financial statements, and
- describe its investment in infrastructure more fully in annual reports of its various organizations (e.g., departments).

The Government did not fully report on public investment in infrastructure in its summary financial statements for the year ended March 31, 2001 or in earlier years. Some government organizations do give the public information about infrastructure that they use to provide public services.

Criteria for informing the public

To help determine what information governments should include in their reports on infrastructure, we reviewed international literature, reports of other auditors, and management best practices. We also considered the principles of performance reporting as set out in Chapter 1C of our 2001 Spring Report. In addition, we shared our criteria with government officials from Executive Council, the Department of Finance, and Crown Investments Corporation of Saskatchewan (CIC). CIC officials noted that the Government's policy to protect the competitive position of its Crown corporations may affect the publication of some information.

The public needs adequate information about the key infrastructure that the Government uses to provide public services. In particular, Government organizations should publish brief descriptions of infrastructure capacity, the extent to which infrastructure helps the Government achieve its plans, and any related risks.

Exhibit 1 sets out the key contents of adequate public reports about the Government's infrastructure. The next section describes the criteria.

Exhibit 1 – Criteria for public information on key infrastructure

Adequate public information about the key infrastructure that a Government organization uses to provide public services should briefly describe:

1. **the capacity of each major category of infrastructure**
    - key infrastructure available for use
    - condition of the infrastructure
    - cost of the infrastructure
    - maximum service that the infrastructure could produce in its current condition
2. **the extent to which the use of key infrastructure achieved planned results**
    - actual operating results compared to plans
    - actual financial results compared to plans
    - reasons for major differences between results and plans
3. **the strategies used to manage major risks of the key infrastructure**
    - identify major risks that may affect the key infrastructure
    - actions taken or planned to reduce major risks to acceptable levels

Capacity of infrastructure by category

We use "capacity" to mean the ability of infrastructure to help the Government provide public services. The public needs to know what type and level of services the Government has the capacity to provide with public infrastructure. Government agencies could publish summarized information about the available infrastructure, its condition, cost, and the maximum services that the infrastructure could produce.

Exhibit 2 shows one way to present information about the capacity of infrastructure. Some agencies may prefer a narrative format, while others may prefer multiple exhibits.

Exhibit 2 - SAMPLE FORMAT for Annual Capacity Information on Infrastructure

Available infrastructure		Condition *		Cost		Maximum capacity	
Category	**Nature & location**						
		Life span that remains	**Program to maintain**	**Historical cost**	**Cost to replace**	**Type of service**	**Maximum volume**
Road system	Primary	XX years average	Regular / deferred	$000	$000	Heavy traffic	Vehicles per hour by weight
	Secondary	XX years average	Regular / deferred	Not known	$000	Local traffic	Vehicles per hour by weight
Pipeline System	XXX km by region	---	XX km inspected	$000	$000	Natural gas	Potential petajoules
Dams	Earthfill dams	XX years	Standard / minimal	$000	$000	Water control	Max. cubic decametres for irrigation

* Most information about condition would be narrative, particularly details about the maintenance program and any serious deterioration.

Available infrastructure

A summary of the key infrastructure available for use would include information about the nature and location of each major category. This information would be reported in the context of its usefulness (e.g., ratios). For example, the Government could report the number of kilometres of primary and secondary highways it has, along with the kilometres of highway per capita in various areas of the province.

Condition

A summary of the present condition of each major category of infrastructure would state the average remaining life span. It would also explain how the Government maintains public infrastructure in good working condition. In addition, it would describe key trends toward deterioration or renewal that would impact the capacity of the infrastructure over its original expected life span, safety, or the environment.

For example, information about the condition of a dam would include the number of years that it can continue to be used, that is, its remaining life span. Public information would also explain how the current condition of the dam would influence the volume, type, and quality of services that the dam could provide (e.g., water level control, power generation, recreation).

Cost

Information about the cost of public infrastructure helps the public to appreciate its value. There are two main types of cost information that are useful to the public. These are historical cost and replacement cost.

Historical cost is the actual cost to acquire the infrastructure whether it was purchased, constructed, or leased. This information helps the public to evaluate the Government's previous decisions by comparing the benefits gained to the actual costs. Historical cost is the most common way to measure the cost of assets. The Government provides the historical cost of much of its infrastructure in its public financial statements.

Historical cost becomes less relevant as time passes. For example, decisions about whether to renovate an old building are influenced less by the building's historical cost than by the cost to build a new one. Information on replacement cost may be more relevant.

Replacement cost helps the public evaluate the Government's choices about future investments in infrastructure. The Government can estimate replacement cost in various ways. Thus, it is important that public information briefly state the method used to determine replacement costs.

Disclosing information about the cost of infrastructure can be challenging. In some situations, information about historical cost may not be practical. For example, complete records are not available of the original cost to construct older highways. In other situations, replacement cost may not be useful. For example, the Government may not plan to replace some infrastructure.

In summary, the Government should explain the cost of public infrastructure in some way. The Government should also state the method it used to determine the cost of public infrastructure, and whether it is an actual cost or an estimate.

Maximum capacity

The public needs information about the maximum service capacity of the Government's infrastructure in its present condition. This information would help the public evaluate whether the Government is using public infrastructure effectively. It also allows the public to better understand whether the Government should consider alternatives to its present arrangements for infrastructure.

For example, if the Government has excess capacity, it may have excess costs, or it may have an opportunity to generate additional revenues. Alternatively, if the Government has insufficient capacity to provide the expected level of services, the public may wish to influence the Government's priorities for allocating resources to infrastructure.

Achievement of planned results

To decide whether the use of public infrastructure is reasonably effective, the public needs to know whether the infrastructure helped the Government to achieve its planned operating and financial results.

Operating results compared to plans

Operational information about infrastructure would compare actual service volumes and the quality of those services to targets. Key operational information would include public satisfaction levels, or the number and duration of service interruptions or downtimes. It would also include comparisons to specific industry standards, for example for public safety or reliability. In some cases, it would include comparisons of accident rates to targets and/or assessments of the impact of the infrastructure on the environment.

Financial results compared to plans

Financial information about infrastructure would compare actual financial results to key financial targets. Key financial information would compare plans (i.e., budgets, expected return on investment) to actual spending or return on infrastructure. It would also state whether the cost to operate and maintain the infrastructure at the expected service level was higher or lower than expected. The public would receive information on whether the final cost of acquiring new infrastructure (e.g., new construction, purchases, leases) was higher or lower than expected.

Reasons for differences between results and plans

The public needs to understand why results differ from plans. Public information would include reasons for significant differences between planned and actual results for both operational and financial information.

Sometimes differences are due to matters that the Government cannot control. For example, technological changes may make infrastructure less useful or even obsolete. At other times, the differences may be the result of things that the Government can control. For example, decisions to provide less operator training or to defer maintenance could affect the capacity of the infrastructure, and changes in public policy could affect how the infrastructure is used. Public reporting provides the Government with an opportunity to explain why there are differences between results and plans.

Strategies for managing infrastructure risks

The public needs to know whether the Government is adequately managing the major risks associated with public infrastructure. The public expects the Government to manage infrastructure in a way that protects their health and safety, and the environment. In addition, the public expects the Government to undertake actions that will reduce major risks to an acceptable level.

Major risks

As previously mentioned, the Government faces several key risks related to public infrastructure. Many of these risks to infrastructure affect its service capacity. For example, infrastructure may break down due to misuse or become less productive due to poor maintenance. Other risks affect the environment (e.g., air pollution from power plants), or the health and safety of the public or employees.

These risks can, in turn, have a significant financial impact on the Government by reducing revenues or by increasing costs. For example, if the Government's infrastructure does not minimize pollution, the Government may be required to spend public money to repair the damage.

Risk reduction

To understand how the Government manages its major infrastructure risks, the public needs information on how the Government reduces the risks to acceptable levels. To provide this information, the Government would describe the level of risk that it considers acceptable.

For those risks that exceed the acceptable level, the Government would provide information on strategies to reduce those risks. For example, when infrastructure is obsolete or in poor condition, the Government may decide to increase maintenance, replace the infrastructure, or ensure the infrastructure complies with the standards of regulatory bodies (e.g., Canadian Radio-television and Telecommunications Commission).

The Government would also inform the public how it plans to reduce the risk of accidents. For example, the Government would report how often it carries out environmental and safety assessments. In addition, the Government could report how it uses hiring practices or operator training to reduce risks related to the Government's infrastructure.

With this information, the public would be better able to evaluate whether the Government is managing risks appropriately.

What we plan to do

In the future, we plan to examine public information about the Government's infrastructure. Initially, we will audit the information of one department and one Crown corporation. As previously stated, we expect to use this work to identify areas where it is difficult to provide important information to the public. In addition, we look forward to discussions with government officials and legislators on how the Government can improve the information it makes public. We will report on the results of this examination in our 2002 Spring Report.

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Managing accountability risks in public-private partnerships

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Executive summary

The Government of Saskatchewan is exploring the use of public-private partnerships to increase its flexibility in pursuing public goals. This involves the government using entities outside of government to deliver services, including the building and maintaining of infrastructure. Although the government has for years used outside entities to provide specific services, public-private partnerships would involve more significant transfers of risk and sharing of authority with the non-public sector. As a result, maintaining public accountability may be more complicated.

In this chapter, we describe best practices that the Government of Saskatchewan should follow to manage the accountability risks associated with public-private partnerships:

1. Set out guiding principles in legislation or policy for the use of public-private partnerships.
2. Ensure the Government and its partners have adequate capacity to enter into and carry out public-private partnerships.
3. Agree upon plans to carry out public-private partnerships.
4. Require effective reports on performance of public-private partnerships.
5. Ensure reasonable reviews of performance of public-private partnerships.

We urge the Government to follow these practices as it considers public-private partnerships. We expect to examine and report on public-private partnerships that the Government undertakes.

Introduction

Governments have been exploring different ways of providing services, including the building and maintaining of infrastructure. Some involve working with entities outside of government. One label that has been used to describe these arrangements between governments and entities outside of government is "public-private partnership" or "P3." While this term implies partnership with a private sector organization, partnerships could involve other non-public organizations, such as not-for-profit or community-based organizations.

When governments turn to organizations outside government to provide services, it can complicate accountability. By accountability, we mean the government demonstrating responsible action and reporting its performance in light of its plans. In entering into P3 relationships, governments must ensure that accountability for public money is maintained.

The Government of Saskatchewan is exploring the use of P3s to deliver services. For this reason, we describe in this chapter best practices that the Government of Saskatchewan should follow to manage the accountability risks associated with P3s. Our focus is on what the Government should do to manage accountability risks; we do not describe best practices for managing the operation of a P3. The Government of Saskatchewan has given Crown Investments Corporation of Saskatchewan (CIC) the mandate to coordinate the delivery of P3 options across the entire Government.

To develop these best practices, we reviewed Canadian and international literature and reports of other auditors concerning P3s. We considered government guidelines on P3s. We consulted with the Department of Finance, CIC and other legislative audit offices regarding the best practices.

Background

What is a public-private partnership?

The term "P3" has been used to cover a broad range of interaction between government and non-governmental organizations. This has created confusion. Although the government has for years used outside entities to provide specific services, public-private partnerships would involve more significant transfers of risk and sharing of authority.

We use P3 to refer to arrangements where government works with entities outside of government to provide services that have traditionally been delivered by the public sector.

P3s generally include the following common elements:

- co-operative pursuit of shared or compatible objectives;
- mutual benefit;
- risk sharing;
- best use of public resources;
- joint investment of resources; and
- sharing of authority.

P3s vary in how they allocate risk, reward and responsibility between government and non-governmental partners. On one end of the spectrum, a P3 may involve a partner simply contributing resources to a government program (for example, a private company contributing to a government training program in order to benefit from a more qualified workforce). At the other end of the spectrum, a partner may design, build, operate and own an asset that is used to provide public services. This level of involvement means the partner takes on risks (e.g., construction risks, usage risks) and will expect to be rewarded accordingly.

P3s also vary in how they are structured. In some cases, the relationship is simply based upon transactions, such as the partner contributing resources to a government program. At the other end of the spectrum, the government, together with the partner, may set up a separate entity to carry out the P3.

This chapter focuses on co-operative projects involving more significant transfers of risk and sharing of authority with the private sector.

Why use a public-private partnership?

Proponents cite several reasons for using P3s. They state that P3s can reduce government cost, improve service, build on private sector expertise, and promote economic development.

In the past, some governments used P3s as a way to avoid taking on debt. Instead of the government borrowing money to build an asset, it would have a partner build the asset. The government would then pay the partner a fee to use the asset. As a result, the government's finances would look better because no debt would be recorded on the government's books. However, the reality in many cases was that the government retained the significant risks associated with the asset. Therefore the asset really belonged to the government, as did the debt. The Canadian Institute of Chartered Accountants has new accounting rules that require the accounting for these arrangements to reflect the underlying reality.[1]

There are other reasons for use of P3s. P3s can be used to transfer risk and allocate potential rewards, and to build incentives into projects that will promote improved performance. Ultimately, working collaboratively with others should allow governments a broader range of resources, tools and options to assist them in carrying out their responsibilities.

> For too long there has been a lack of diversity in the way in which public services are provided and projects are procured. Government has tended to rely on too limited a pool of service providers and too restrictive an approach towards undertaking large capital projects. This has resulted in public services missing out on the skills, creativity, and areas of expertise that reside in a wide range of private and voluntary organizations. This means less choice for public authorities, less innovation than may otherwise be the case, and less scope for learning within public service organizations.[2]

There are also cases where the use of P3s is not appropriate. Governments should not use P3s where government control over public policy would be jeopardized. Governments should not use P3s where there is no prospect, for policy or operational reasons, of transferring significant control and risk to the private sector without disproportionate cost.[3]

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[1] The Canadian Institute of Chartered Accountants, (April 2000).
[2] Institute for Public Policy Research, (June 2001), p.1.

Accountability risks

P3s could create accountability risks for governments and citizens such as:

- avoidance of public accountability mechanisms;
- difficulty in measuring cost-benefit;
- loss of public control over important assets;
- circumventing government control practices;
- ineffective transfer of risk to partners.

Some accountability risks may relate to Government and partner expectations regarding confidentiality. Confidentiality should not be allowed to override the need for the Government to be accountable for its use of public resources. The risk is that to accommodate the private sector's desire for confidentiality, transparency in spending of public money may be compromised. One author has noted "…it is striking how government representatives have acquiesced to demands by their private partners that the details of their contracts remain confidential, thus blurring the lines of accountability."[4]

However, while the Government must account for its use of public resources in the partnership, the private partner should not be forced to disclose commercially sensitive information that would impair its competitive position.

Other accountability risks may relate to the structure of the P3 arrangements, particularly where it involves the creation of a new entity to carry out the P3. That entity must not be regarded as being outside of Government, and thus not subject to normal accountability through the Legislative Assembly. Although the Government can delegate authority to do specific tasks, it cannot delegate its responsibility. It is always answerable to the Legislative Assembly for its stewardship of public money. Working with a partner does not lessen the Government's accountability in any way.

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[3] British Columbia. Ministry of Employment and Investment, (January 1998), section 2.
[4] Joan Price Boase, (Spring 2000), p. 88.

Best practices

In this section, we describe best practices for Government to manage accountability risks associated with P3s. We list these best practices in Exhibit 1.

The first two best practices are preconditions for the use of P3s. The three remaining best practices describe necessary elements of all public accountability systems. These are:

- agreed-upon plans (that are clear as to responsibilities, authorities, performance targets, and resources needed);
- reliable reports on performance; and
- reasonable reviews of performance.

The last three best practices are described in more detail in Chapter 1 of our 2000 Spring Report.

Exhibit 1

To manage accountability risks associated with public-private partnerships, the Government should:

1. set out guiding principles in legislation or policy for the use of public-private partnerships
    - confirm guiding principles with stakeholders
    - distribute guiding principles
    - integrate guiding principles into operating practices
2. ensure the Government and its partners have adequate capacity to enter into and carry out public-private partnerships
    - confirm legislative authority to enter into agreements
    - assess adequacy of resources (e.g., expertise to knowledgeably supervise activities and results, adequate information and money available)
    - confirm partner's recognition of the Government's public sector accountability and commitment to guiding principles
3. agree upon plans to carry out public-private partnerships
    - clarify roles and responsibilities of the Government, partners and partnership (including any entity created)
    - establish clear objectives for the partnership (e.g., best result for the least cost using a public sector comparator, acceptable level of risk and reward)
    - set clear performance targets focusing on outcomes
    - incorporate change management and dispute resolution processes
4. require effective reports on performance (see Exhibit 2) of public-private partnerships
    - respond to information needs of stakeholders
    - describe results achieved by partnership (achievement of objectives and performance targets)

- comply with generally accepted accounting principles (e.g., new accounting rules governing the ownership of leased assets)
- ensure reports are made public in timely way
- provide for independent verification of the reliability of financial and performance information

5. ensure reasonable reviews of performance of public-private partnerships
    - set clear evaluation criteria
    - ensure the Government and partners can access performance information
    - provide for transparent public access to performance information of partnership
    - require regular legislative review of performance of partnership
    - provide for shared learning
    - assign responsibility for compilation of lessons learned
    - assign responsibility for communication of lessons

1. Set out guiding principles in legislation or policy for the use of public-private partnerships

To follow best practices for managing accountability risks associated with P3s, the Government should set out the principles and values that will guide its use of P3s (e.g., transparency). These guiding principles would apply to the use of P3s generally, and would not be specific to any particular P3 project. It is important that the Government articulate these principles and values in order to provide guidance for those involved in setting up P3 arrangements. We note that the Government is working on guiding principles for P3s.

The Government should confirm these principles with its stakeholders through public consultation. Stakeholders include the public, Government agencies, and potential partners. The Government should also make the guiding principles available to its stakeholders. Operating practices for P3s should incorporate the guiding principles and should be co-ordinated across the Government.

2. Ensure the Government and its partners have adequate capacity to enter into and carry out public-private partnerships

To follow best practices for managing accountability risks associated with P3s, the Government should ensure that it has adequate capacity to negotiate and carry out successful P3s. It should also ensure that its prospective partners have adequate capacity.

The Government, in assessing its capacity, should consider whether it has sufficient legislative authority to enter into the P3. The Government also needs to assess the adequacy of resources it has available. It will need expertise, for example, to knowledgeably supervise activities and results. It will require adequate information to support its decisions. Finally, it should ensure that it will have sufficient money to support its participation in the planned P3 over the life of the arrangement.

In choosing a partner, the Government should ensure that the partner also has adequate expertise, information and resources. It should also consider whether the partner has previous experience with P3s.

Working with a partner does not lessen the Government's accountability for its use of resources. The Government should confirm that the partner recognizes that the Government retains its public sector accountability and agrees to use the stated principles for use of P3s.

3. Agree upon plans to carry out public-private partnerships

To follow best practices for managing accountability risks associated with P3s, the Government should ensure that plans for P3s set out clear roles and responsibilities, objectives, and performance targets. These should be clear for the Government, the partners and the partnership. Plans to create and carry out the partnership may be found in more than one document, for example, in a business plan and later in a contract to carry out the P3.

The plans must specify the roles and responsibilities for all participants. This includes the Government, partners, and the partnership (including any entity created specifically for the P3). The plans should indicate the contractual obligations of the Government and the partners. It should describe who is accountable for what and to whom. The plans should specify how reporting should take place. They also need to describe the Government's and the partners' resource contributions.

The plans must establish clear objectives for the P3. The guiding principles should help the Government determine the objectives it will seek through the use of the P3.

Although different P3s will have different operational objectives, a common goal for all will be to achieve the best use of public resources (i.e., the best result for the least cost). To compare costs, the Government should compare the public sector cost for providing the service (called the "public sector comparator") to the cost of providing the service using a P3. This comparator must be constructed with care to ensure a fair comparison of the full costs. The Government will also need to evaluate whether a P3 will deliver the best result (e.g., quality, quantity or timing) compared to other methods.

Another reason that a government participates in a P3 is to share the risk involved in a project. The private sector partner will be willing to assume risk provided there is the potential for adequate reward. The Government could structure the P3 so that these rewards function as "built in" incentives that will promote achievement of the Government's objectives. For example, if under a contract the private sector partner will eventually take ownership of an asset, it will have an interest in ensuring proper maintenance is done throughout the life of the contract. The contract should be structured so as to take advantage of that interest.

It is not enough to have an objective. One must know if objectives have been achieved. It is, therefore, an important best practice that the plans for a P3 set out clear performance targets. Clear performance targets allow the partners to assess if they are succeeding in what they have set out to do.

The performance targets should focus on outcomes. That is, the plan should clearly set out the desired consequence or results of the P3's activities. The plan should identify the specific measures that the partners will use to evaluate whether they are meeting those targets. The Government should consult with stakeholders (including the public, related Government agencies, and partners) in selecting performance measures. We note that the Government will have to know what its targets are in order to calculate what the costs for providing the service would have been under the public sector (see the discussion regarding the "public sector comparator" above).

Finally, a good plan will anticipate that difficulties can develop. Therefore, plans for P3s should include change management and dispute resolution processes.

Some jurisdictions are examining the establishment of a framework for developing and implementing P3s. Opinions vary on how standardized and rigid the prescribed process should be. The advantages of strict adherence to a framework include clear expectations of participants' responsibilities and steps, and less cost reinventing new structures. However, too rigid a process also places at risk one of the advantages of a P3, which is to permit the public and private sectors to be innovative in achieving goals.

4. Require effective reports on performance of public-private partnership

To follow best practices for managing accountability risks associated with P3s, the Government should ensure that P3s report effectively. The Government's obligations under a contract cannot lessen its accountability to the Assembly for its use of the powers and the resources entrusted to it. The Assembly needs to receive relevant and reliable information about the Government's planned and actual performance to hold it accountable. In addition, partners and stakeholders of P3s require effective reporting to ensure their objectives are being met.

Effective reports are relevant, reliable, and understandable (see Exhibit 2).

Exhibit 2

Effective performance reports are:

Relevant

- focus on plans and results,
- show how results were achieved,
- set out the cost of results,
- measure something of significance to users, and
- reported in sufficient time to influence decisions.

Reliable

- are accurate and complete,
- are capable of being replicated or verified, and
- are neutral and fair.

Understandable

- balance conciseness with completeness,
- show comparative information consistently,
- are aggregated at an appropriate and meaningful level, and
- describe performance in the context of control and risk.

Source: p. 35, 2001 Spring Report of The Provincial Auditor Saskatchewan.

In particular, a P3's performance reports should provide information that stakeholders need. The reports should describe what was done and the results achieved by the partnership. The reports should describe progress toward achieving objectives and provide explanations for the objectives that have not been achieved.

The reports should describe the partnership arrangement and how well it worked. It should also describe the benefits achieved through use of the partnership arrangement compared to more traditional approaches.

The performance reports need to be accurate and complete. The financial component of the performance report must comply with Generally Accepted Accounting Principles and reflect the underlying substance of the arrangement.

Effective P3 reports also require independent verification of the reliability of financial and performance information.

> …where the independent entities involved in delegated arrangements provide performance reports through ministers to Parliament, the fairness and reliability of the performance information ought to be subject to assessment by an external auditor, paralleling the well-accepted model for financial information. [5]

5. Ensure reasonable reviews of performance of public-private partnerships

To follow best practices for managing accountability risks associated with P3s, the Government should ensure that it reviews the performance of P3s.

As noted in #3, the plan for the P3 should describe clear performance targets. Based on these performance targets, the Government should decide how to evaluate the level of performance.

It is important that the Government and its partners have access to performance information for the partnership. As well, the public should have access to the performance information. Because the nature of a P3 is that the fulfillment of public policy is one step removed from direct ministerial control, the importance of public transparency is heightened.[6] This need for public transparency applies to the partnership, and does not mean that the individual private sector partners must open all their books to greater public scrutiny.

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[5] Canada, Office of the Auditor General, (April 1999), Chap. 23, para. 23-105.

The performance of the P3 should be subject to legislative review. In Saskatchewan, Government agencies are accountable to the Legislative Assembly for what they achieve with the resources provided to them. Government agencies report to the Legislative Assembly through one of two committees, the Public Accounts Committee or the Crown Corporations Committee. Government agencies involved in P3s will also have to report to the Legislative Assembly, through their respective legislative committee, for the performance of the partnership. Again, this does not mean that the private sector partner will have to report to a legislative committee. The partner is within an accountability relationship defined by the contract for the P3, and is not under a direct accountability relationship with the Legislative Assembly.

Finally, it is important that the Government take steps to share the lessons that will arise out of reviews of performance. The Government should assign responsibility for compiling the lessons learned and communicating them to those involved in other partnership projects.

Conclusion

P3s offer governments increased flexibility in pursuing public goals. This complements governments' increasing focus on the results they achieve rather than on how they achieve them.

However, the involvement of entities outside of government in delivering public services may blur the lines of public accountability. Accordingly, we urge the Government to consider these best practices for managing the risks to accountability. We recommend that the Government follow these practices as it considers P3 projects. We expect to examine and report on P3s that the Government undertakes.

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[6] Ibid., para. 23-107.

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Pensions

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Executive summary

Pension plans are complicated arrangements. They need appropriate management and oversight to fulfil the pension promise. The Government's pension plans need sound governance practices in the oversight and management of the plans.

If governance practices are not adequate, the Government may have difficulty paying the pensions promised. Also, the pension plans may not have sufficient assets to provide reasonable pensions to members. Good governance practices help to ensure that the Government can pay the pensions promised and that the plans can provide reasonable pensions.

In this chapter, we outline the criteria that we will use to audit the governance practices used by the Government's pension plans. Pension plans should have rules and procedures to ensure that:

- Board members have adequate knowledge. We expect pension plan boards and management to have a clear understanding of what they do, why they do it, and to whom they are accountable.
- The board approves an appropriate delegation of authority. We expect tasks to be properly delegated and authorized in accordance with the requirements of legislation and plan arrangements.
- Board decisions are properly documented. We expect pension plan boards to have clearly set out their role and responsibilities in writing.
- The board monitors operations on an on-going basis. We expect the pension governance practices to include timely reporting by management to the pension plan board.
- The board has an appropriate external communication policy. We expect the pension plan board to approve a written external communication policy.

Over the next few years, we plan to audit and report on the governance practices used by the Government's pension plans using the criteria outlined in this chapter.

Glossary

Defined benefit pension plan – a pension plan that specifies the pension that members of the plan receive on retirement or the method of determining the pension.

Defined contribution pension plan – a pension plan in which the members' contributions are fixed, usually as a percentage of pay (except for the Saskatchewan Pension Plan, whose members can contribute up to $600 each per year). A member's pension is based on the member's and the employer's contributions made on behalf of the member and investment earnings on those contributions.

Fiduciary responsibility – under common law, board members owe a duty of loyalty to those persons whose interests they are protecting. Board members cannot be in a conflict of interest with their board duties or profit from their board duties because of personal interests. Board members must deal fairly with the members of the plan.

Government enterprises – are Government organizations that have the financial and operating authority to carry on a business. This includes contracting in their own name and selling goods and services to individuals and non-government organizations as their principle activity and source of revenue (e.g., Saskatchewan Power Corporation, SaskEnergy Incorporated).

Government service organizations – are those organizations that are accountable to the Government, either owned or controlled by the Government, and are not Government enterprises (e.g., Saskatchewan Health, Saskatchewan Education).

Pension liability – the present value of pension benefits earned as determined by an actuary using the pension plan's best estimates about future events and an appropriate actuarial method as recommended by The Canadian Institute of Chartered Accountants for accounting purposes.

Pension plan board – is the oversight body identified in the pension plan's act or plan document that acts as the administrator and is the body to which plan management reports. The pension plan board may be referred to as a committee, commission, or trustees in some cases.

Unfunded liability – the amount by which the pension liability exceeds the assets of the pension plan.

Purpose of chapter

When a pension promise is made, this is the first step in the creation of a complex arrangement known as a pension. The appropriate management and oversight of this complex arrangement is critical to the fulfilment of the pension promise for both defined contribution and defined benefit plans. The Government's pension plans are no exception. In this chapter, we outline the criteria that we will use to audit the governance practices used by the Government's pension plans.

If governance practices are not adequate, the Government may have difficulty paying the pensions promised for its defined benefit pension plans. For Government run defined contribution pension plans, the Government and its members may find that there is not adequate money in each member's account to provide a reasonable pension. Good governance practices help to ensure that the Government can pay the pensions promised.

In Saskatchewan, most Government pension plans have their own Acts. A few, under *The Pension Benefits Act, 1992*, have plan documents. The Acts and plan documents are complicated. Also, each Act or plan document is unique. These Acts or plan documents give varying powers and duties to the pension plans' oversight bodies (the pension plan boards).

These complexities and differences from plan to plan increase the risk that the plan, the board, or the Government may inadvertently make a mistake, or be perceived to have made a mistake. If a mistake occurs, the members of the plan, collectively or individually, can hold the parties involved accountable.

The problems that can occur are not restricted to a direct violation of a specific section of a pension Act or plan document, but can involve the application of common law. In recent years, the courts have increasingly used the concept of fiduciary responsibility as a tool to remedy perceived inequities. The Supreme Court of Canada has dealt with the issue of fiduciary obligations in a number of recent cases. While the concept of fiduciary duty is complex and subject to different interpretations, the one overriding feature of a fiduciary relationship is the dependency or vulnerability of the beneficiary.

The dependency or vulnerability of the beneficiary can range from the use of surpluses, to day-to-day decisions, and in some cases, to the right to receive a pension. In several Government pension plan Acts, wording, such as, "no allowance shall be granted to the widow or child of a superannuate or employee if the widow or child is in the opinion of the board unworthy of it", still exists. Obviously, pension plan boards have the ability to exercise significant power over beneficiaries.

In the use of this power, there is risk that the board may not fulfil its fiduciary responsibility in a given case or cases and/or across a period of time. Good pension governance practices can manage and control this risk. The Government can reduce the risk of lawsuits by ensuring that boards of pension plans use sound governance practices.

The Government's pension plans are significant to the Legislative Assembly, members of the pension plans, and the public. Through the plans, the Government manages a significant amount of assets and pension liabilities. Note 6 to the Government's summary financial statements for the year ended March 31, 2001 shows an unfunded pension liability of $3.9 billion for government service organizations and a pension surplus of $241 million for government enterprises.

For the last several years, we have examined and reported on the systems and practices pension plans use to manage their key risks. Over the next few years, we plan to examine governance practices for the Government's pension plans.

Our planned audit objective

The objective of our audit is to assess whether the Government's pension plans have adequate governance practices.

Criteria

Auditors use criteria to evaluate the matters that they examine. Criteria are reasonable and attainable standards of performance and control against which auditors can assess the adequacy of systems and practices. We developed criteria based upon our review of international literature. We discussed the criteria with the Government's pension plans. They agreed with our criteria.

We will use the following criteria to assess the adequacy of the governance practices of the Government's pension plans.

Pension plans should have rules and procedures to ensure that:

- Board members have adequate knowledge.

  We expect pension plan boards and management to have a clear understanding of what they do, why they do it, and to whom they are accountable. Boards need to carefully articulate and define a clear mission statement for their plans. Boards and management need to be qualified and knowledgeable to adequately perform their duties and tasks. To maintain qualified and knowledgeable board members and management, we expect pension plans to have a written succession plan that identifies the required skills and knowledge base.

- The board approves an appropriate delegation of authority.

  We expect tasks, that are delegated either to outside professionals (e.g. actuaries, custodians, investment managers, asset consultants, etc) or internally, are properly delegated and authorized in accordance with the requirements of legislation and plan arrangements.

- Board decisions are properly documented.

  We expect pension plan boards to have clearly set out their role and responsibilities in writing. We also expect that the decisions regarding the investment of the money in the pension fund and the selection of agents will also be in writing. We expect this written evidence of decisions to include all relevant information including the management of key risks. Management should prepare and the board should approve a strategic plan that includes a summary of the risks faced by the plan and its members, the key strategies to manage those risks, and the goals and objectives of the plan.

- The board monitors operations on an on-going basis.

  We expect the pension governance practices to include timely reporting by management to the pension plan board. The information provided to the board should include sufficient detail so that board members can understand and challenge management and/or outside professionals. Management should ensure that their reports and the reports of outside professionals are timely, accurate, and complete. To assist the board and employees in making decisions, we expect that the boards will have a written code of conduct for board members, management, and employees of the plan. We also expect a formal process of governance self-assessment. This includes reviewing and modifying the governance process over time to ensure its continuing effectiveness and reporting assessments to the appropriate stakeholders.

- The board has an appropriate external communication policy.

  We expect the pension plan board to approve a written external communication policy. The communication policy should ensure that disclosure is appropriate and timely. The board must have processes to ensure that the annual report distribution is to the appropriate stakeholders (those that own and/or share risk). The annual report should disclose the plan's governance principles and practices, and whether the board and management followed the practices. Where there has been a violation of the governance principles and practices, we expect that the report will provide an explanation. We expect plan members to be fully informed and educated when they bear the investment risk.

Our plan for the next few years

We plan to continue to examine the systems and practices pension plans use to manage their key risks. Specifically, over the next few years, we plan to audit the governance practices used by the Government's pension plans using the criteria outlined in this chapter.

In addition, in a future report, we will provide an update on the progress of our past recommendations and the progress that pension plans have made in improving their annual reports.

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Executive summary

The Department of Health's mandate is to protect and improve the health of Saskatchewan people. The Department spent $2.3 billion for the year ended March 31, 2001. The Department gave $1.38 billion of that money to health districts to deliver health services.

Part A sets out the results of our audits of the Department and its Crown agencies. The Department should improve the way it directs and monitors the performance of the health districts. In particular, the Department should approve the annual budgets of health districts before their fiscal year begins. Part A also contains several recommendations on how the Board of Governors, Uranium City Hospital needs to improve how it directs and monitors the performance of the Hospital.

Part B encourages the Department to prepare financial statements showing the total assets, liabilities, revenues, and expenses that are the responsibility of the Minister of Health and the Department. These financial statements would improve public accountability and decision-making.

Part C describes the results of the audits of 10 health districts for the year ended March 31, 2001. The districts continue to develop key performance information. However, districts need to improve the way they set direction, monitor performance, safeguard assets, comply with the law, and ensure adequate accountability to district residents and the Minister of Health.

Part D describes the results of our audit of the capital equipment plans of health districts. We examined the plans of two districts that provide regional services and have extensive equipment requirements. We assessed whether the plans contained the key elements of capital asset plans for the public sector. We found that districts we examined need to improve their capital asset plans to ensure that they have the necessary equipment to deliver good health care.

Part E describes the status of our 1999 recommendations regarding the Department's processes to allocate resources among districts based on health needs. Our follow-up work shows the Department's planning processes are evolving in ways that enhance the Department's processes for needs-based resource allocation among health districts.

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Introduction

The Department of Health's mandate is to protect and improve the health of Saskatchewan people. To do this, the Department provides policy direction, direct services, and funding to health providers and health agencies.

For the year ended March 31, 2001, the Department received $2.08 billion from the General Revenue Fund and spent this money on its programs. The Department also raised revenue of $12 million. The Department's annual report contains information about the Department's revenues and expenses.

Government spending on health

Table 1 shows total health revenues of $2.292 billion by source. Table 2 shows total health costs of $2.281 billion by program. We obtained the information from the *Public Accounts 2000-2001: Volume 2: Details of Revenue and Expenditure* (to view a copy of this report, see http://www.gov.sk.ca/finance/paccts) and the March 31, 2001 financial statements of the District Health Boards and other government health agencies. In this chapter, we refer to all of these organizations together as the "Health System". The costs in Table 2 do not include Indian and northern health services, because the Federal Government pays these costs, nor the costs that individuals and private sector organizations pay for private health services.

Crown agencies

The Department is responsible for the following Crown agencies with March year-ends:

Board of Governors, Uranium City Hospital
Health Services Utilization and Research Commission
Saskatchewan Cancer Foundation
St. Louis Alcoholism Rehabilitation Centre
Saskatchewan Health Information Network
Thirty-two district health boards (see Chapter 6, Part C – District Health Boards).

Table 1

Health **Revenues** by Source for the year ended March 31
(in millions of dollars)

	2001	2000	1999	1998	1997	1996*
General Revenue Fund (GRF)	$ 2,076	$1,956	$ 1,789	$1,677	$ 1,608	$ 1,555
Service fees revenue	109	99	97	99	95	94
Transfers from other governments	23	21	21	19	17	24
Ancillary revenue	18	17	16	15	15	15
Donations	17	12	16	15	9	12
Investment income	11	11	9	9	10	11
Other	38	43	55	28	42	26
Total revenues	$ 2,292	$2,159	$ 2,003	$1,862	$ 1,796	$ 1,737

Table 2

Health **Costs** by Program for the year ended March 31
(in millions of dollars)

	2001	2000	1999	1998	1997	1996*
Acute Services	$ 864	$ 832	$ 713	$ 657	$ 625	$ 537
Supportive care services	414	382	358	332	336	371
Medical services and education	401	384	392	384	353	346
Prescription drug plan and extended benefits	141	128	115	98	94	93
Home based services	91	86	79	76	68	58
Provincial health services	78	64	64	59	49	65
Mental health services	58	55	51	46	42	40
Community health services	53	52	50	44	39	31
Rehabilitation services	43	44	39	37	38	36
Emergency response services	35	25	22	21	21	22
Health improvement initiatives	27	25	25	29	26	77
Administration	20	35	25	25	25	20
Ancillary	12	12	11	10	9	9
Alcohol and drug services	13	13	11	9	6	5
Other	31	26	28	13	43	27
Total expenses	$2,281	$2,163	$ 1,983	$ 1,840	$ 1,774	$ 1,737

* Prior to 1996, reliable comparable amounts are not available due to significant changes in the health system , in particular, the formation of the 32 health districts.

Our audit conclusions and findings

At the date of this report, the Board of Governors, Uranium City Hospital has not prepared its financial statements for the year ended March 31,

2001. Accordingly, we have not completed our audit work on the financial statements. We will report the results of this work in a future report.

In our opinion, for the Department and agencies for the year ended March 31, 2001:

- **the financial statements for the agencies listed on page 77 are reliable, except for Saskatchewan Health Information Network reported on pages 98 to 100 in this chapter;**
- **the Department and its agencies had adequate rules and procedures to safeguard and control their assets, except where we report otherwise in this chapter; and**
- **the Department and its agencies complied with the authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing and investing, except where we report otherwise in this chapter.**

We also include our assessment of the Department's annual report for the year ended March 31, 2001.

We report the results of our audits of District Health Boards in Part C of this chapter.

Annual report needs improvement

We reviewed the Department's annual report for the year ended March 31, 2001. We are pleased to note that the Department has significantly improved its annual report. The report describes the key risks the Department must manage well to succeed and how it plans to manage the risks. In future years, we plan to audit the Department's systems to manage its key risks.

The annual report has begun to set out a few financial performance measures (no targets as yet) that the Department uses to assess the financial performance of the health system. To encourage the Department to continue to develop financial measures and to set financial targets, we describe on pages 81 to 90 some examples of financial measures the Department might use.

The annual report has begun to describe some operating performance measures that the Department uses to monitor the health status of Saskatchewan residents and the effectiveness of health programs. The Department, with the aid of key stakeholders, is developing a complete set of performance measures.

The annual report does not contain a complete set of financial statements for the health sector. It shows most of the Department's revenues and expenses, but not what the Department owns and owes. To encourage the Department to prepare complete financial statements, we have prepared a model set of financial statements for the Department and included them in Part B of this chapter.

The annual report does not make public timely performance information on major capital construction projects (total cost - $22.7 million). As a result, the public does not know whether the construction costs were within planned costs, whether there were any significant changes to the projects, and whether the expected projects' benefits were achieved.

Public confidence in the health system is important to the Department's success. While many factors are involved, public confidence will improve if the Department continues to improve the content of its annual report.

We also reported this matter in previous reports. We recognize that the Department has significantly improved the quality of its annual report. In January 1999, The Standing Committee on Public Accounts (PAC) agreed with our recommendations.

We continue to recommend that the Department's annual report describe more fully:

- the Department's performance indicators, targets and actual results compared to plans; and
- performance information on major capital construction projects.

1. **We recommend that the Department include a complete set of financial statements in its annual report prepared in accordance with Canadian generally accepted accounting principles for the public sector.**

First Ministers agree to report on health systems' performance

In September 2000, all First Ministers in Canada prepared a news release communicating to Canadians their vision of health: *Canadians will have publicly funded health services that provide quality health care and that promote the health and well-being of Canadians in a cost-effective and fair manner.*

In this communication, the First Ministers' committed to preparing public reports on their health systems' performance (i.e., health status, health outcomes, and quality of services) starting in September 2002. The First Ministers intend that the public reports will describe each health system's performance in 14 indicator areas and be prepared on a comparable basis. This will allow legislators and the public to compare the performance of their health system with the health systems in other jurisdictions. Appropriate third parties will verify (provide independent assurance on) these reports.

Legislators and the public need to know that the health reports are reliable and comparable with other jurisdictions. They also need to know that the independent audit assurance provided on the health reports is credible and consistent across jurisdictions. We are working with all legislative auditors to ensure that the audit assurance in all jurisdictions is consistent in form and is based on similar professional standards and auditing procedures.

We are working with the Department to ensure legislators and the public know that the health reports are reliable.

Financial measures for our health system

As described previously, the Department should develop financial targets and measures to help report its progress in achieving its financial targets. The Department has begun to develop financial measures, but needs to do more. To foster this development, we set out below examples of financial measures the Department might use to measure its financial performance.

The Legislative Assembly and the public often ask about the state of the Health System's finances. They want to know whether the Health System's financial condition is growing stronger or weaker, and why. Also, many want to know where they can obtain the information required to help them make their own assessments.

A sound understanding of the Health System's finances is important to an informed debate about the issues facing the Health System. Those issues pertain to the affordability of programs and services, and the maintenance of Saskatchewan's health care infrastructure of buildings and equipment.

We derived information on measures from the Government's statistical reports, the *Public Accounts 2000-2001: Volume 2: Details of Revenue and Expenditure*, and the annual financial statements of health districts and other health crown agencies. The Department's, health districts', and crown agencies' fiscal year end is March 31. As gross domestic product (GDP), and the Consumer Price Index (CPI) are not available for a fiscal year, we use GDP and CPI statistics for a calendar year in our analysis. For example, the GDP statistic in the 2001 column is for the year ended December 31, 2000. The information is not adjusted for inflation.

We focus on six financial and economic measures for the years ended March 31, 1995 to March 31, 2001. The measures are modelled after the Research Report, *Indicators of Government Financial Condition*, published by The Canadian Institute of Chartered Accountants. Each measure can and should be analyzed in detail, combined with other information, and monitored over time.

The measures we report on include:

- total health spending as a percentage of the Province's GDP;
- total health spending as a percentage of the Government's total spending;
- change in health spending compared to change in the CPI and the Province's GDP;

- districts' operating surplus or deficit as a percentage of total district spending;
- districts' working capital ratio; and
- change in the district's capital assets.

The health costs used in these measures do not include Federal Government spending for Indian and northern health services or the costs that individuals and private sector organizations pay for private health services.

Readers should be aware that the measures will not provide them with information on trends in the health status of the province's residents or in the effectiveness of health services. The measures pertain only to the financial sustainability of the Health System.

Total health spending as a percentage of the Province's Gross Domestic Product

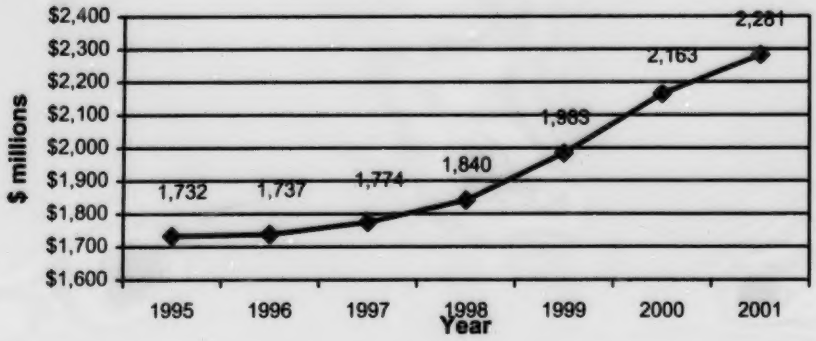
The first performance measure of sustainability involves analyzing the total health spending as a percentage of the Province's GDP.

The Province's GDP is a measure of the value of goods and services produced in Saskatchewan in one year. The GDP reflects the size of the provincial economy. If health spending grows faster than the GDP, the economy may not be able to support that level of health care spending in the long run, unless spending on other government programs is reduced or taxes are increased.

During the past seven years, health spending has increased by thirty-two percent from $1.732 billion in 1995 to $2.281 billion in 2001 (see graph below). Over the same period, the Province's GDP increased by thirty-three percent from $24.7 billion in 1995 to $32.9 billion in 2001 (see our 2001 Fall Report – Volume 1).

Graph 1

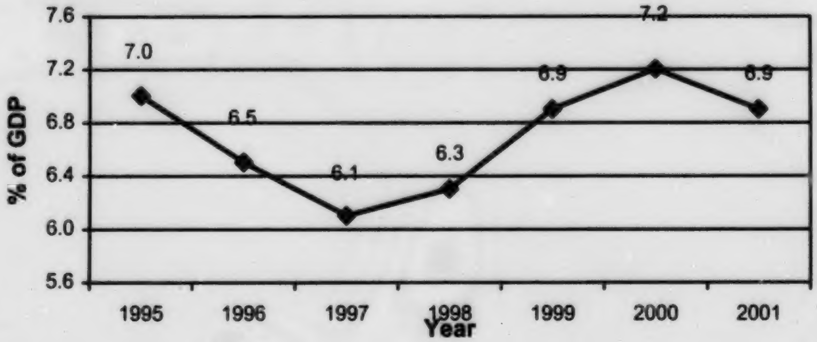
The Government's Total Health Spending



The following graph shows the trend in the total health spending as a percentage of the provincial GDP from 1995 to 2001. By comparing the total health spending to the Province's GDP, the financial demands placed on the economy by health spending can be assessed.

Graph 2

Total Health Spending as a Percentage of GDP



This comparison shows that from 1995 to 1997, health spending declined as a percentage of GDP, but from 1997 to 2000, health spending increased as a percentage of GDP. In 2001, health spending is at almost the same percentage of GDP as it was in 1995. This comparison indicates that the financial demands being placed on the economy by health spending are keeping pace with the Province's GDP.

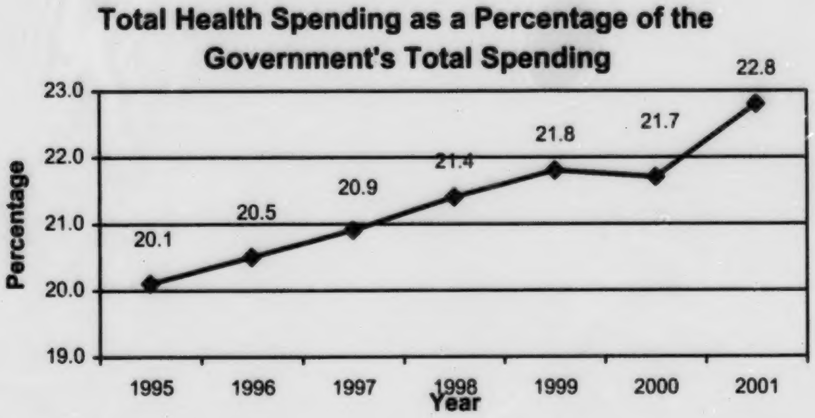
Total health spending as a percentage of the Government's total spending

The second performance measure of sustainability involves analyzing the total health spending as a percentage of the Government's total spending.

This measure shows the impact that health spending has on the spending to deliver other government programs. The ability to spend a greater percentage on health each year may not be sustainable because of the need to provide other necessary government services.

The following graph shows the trend in the health spending as a percentage of the Government's total spending from 1995 to 2001. By comparing health spending to the Government's total spending, the financial demands placed on the Government by health spending can be assessed.

Graph 3



Total Health Spending as a Percentage of the Government's Total Spending

This comparison shows that from 1995 to 2001, health spending has increased from 20.1 to 22.8 percent of the Government's total spending. The upward trend in this graph suggests a decrease in sustainability due to more demands for health care spending being placed on the Government's total spending.

Change in health spending compared to change in the Consumer Price Index (CPI) and the Province's GDP

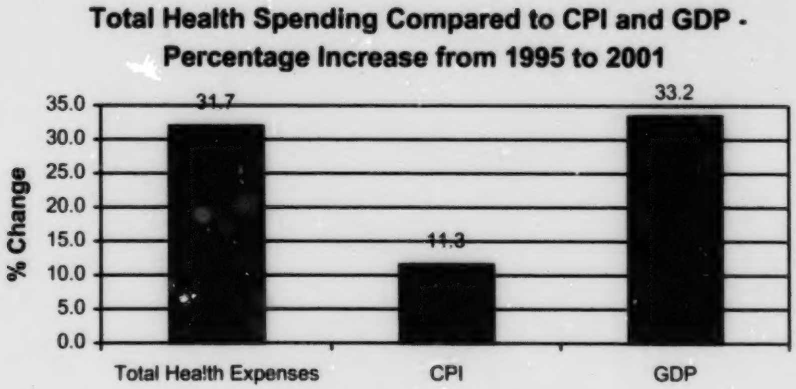
A third performance measure of sustainability involves analyzing the change in health spending compared to the change in the Consumer Price Index (CPI) and the GDP.

Comparing the change in health spending to the change in the CPI indicates whether health spending has kept pace with inflation. If spending increases keep pace with increases to the CPI, the health system is likely to be able to continue providing current levels of programs and services. If health spending increases are significantly lower than increases in the CPI, current health programs may be at risk because health spending is not keeping up with increases in the cost of living. If health spending increases are higher than the CPI, this could indicate an unsustainable trend because health spending is exceeding inflation.

Comparing the change in health spending to the change in GDP shows the rate that health spending changed to the rate that the provincial economy changed. If health spending increases are higher than the growth of the provincial economy, this could indicate an unsustainable trend.

The following graph shows that total health spending grew faster than the CPI, and at a rate approximately equal to that of our provincial economy. Although health spending is not growing faster than the provincial economy, it is growing faster than inflation. Because Saskatchewan's economy is vulnerable to changes in commodity prices, interest rates, and the weather, the increases in health spending in recent years could prove to be unsustainable. A downturn in Saskatchewan's economy would require the Government to make difficult decisions on health spending.

Graph 4



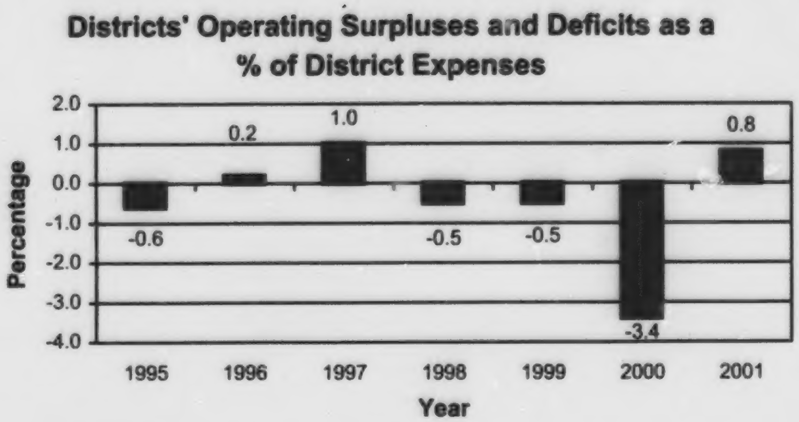
Districts' operating surpluses and deficits as a percentage of total district spending

A fourth performance measure of sustainability involves analyzing the districts' annual operating surplus or deficit as a percentage of total district spending.

The annual operating surplus (or deficit) shows the extent to which the districts have more (or less) operating revenue than operating expenses in a fiscal year. Districts that are able to run an operating surplus are better able to sustain their capacity to maintain their programs over the long term.

The following graph shows that at March 31, 1995, the districts had a total operating deficit of $5.8 million or 0.6% of total spending. By 1997, the districts had a total operating surplus of $12 million (1.0% of total spending). That upward trend reversed itself in the next three years because there were deficits each year. In 2001, the districts had a total operating surplus of $12 million (0.8% of spending). The return to a surplus position in 2001 shows that the districts have increased capacity to maintain their programs over the long term.

Graph 5



Districts' working capital ratio

The fifth performance measure of sustainability involves analyzing the districts' working capital ratio.

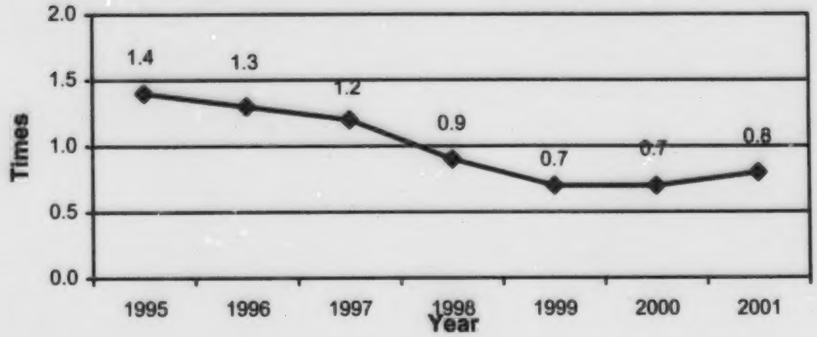
The working capital ratio is calculated by dividing current assets by current liabilities. This ratio represents the districts' ability to pay employees and suppliers on time. Declines in current assets compared to current liabilities may impair a district's ability to maintain programs and services.

We have adjusted the districts' current assets for restricted funds (e.g., community trust funds) because they are not readily available for the districts' use.

The following graph shows a trend in the districts' working capital ratio from 1995 to 2001. The ratio reflects the number of times that current assets exceed current liabilities. At March 31, 1995, the districts had an average working capital ratio of 1.4 (i.e., districts had 1.4 times more current assets than current liabilities). The average working capital ratio fell to 0.7 in 1999, but it has risen slightly to 0.8 in 2001. This means that current liabilities still exceed current assets, which could impair the districts' ability to pay salaries, and other costs on time. If this downward trend continues, more districts may experience problems in meeting their current financial obligations to suppliers or employees. They also may be unable to maintain existing programs and services.

Graph 6

Districts' Working Capital Ratio



Change in the districts' capital assets

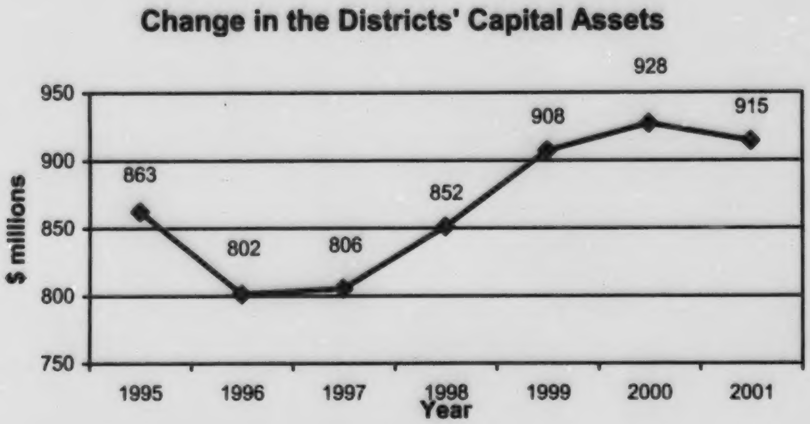
The final performance measure of sustainability involves analyzing changes in capital assets owned by districts.

Districts own most of the capital assets in the health system. Capital assets are resources such as property, buildings, and equipment that are used to deliver health services. Capital assets must be properly maintained or replaced, otherwise they lose their productive capacity. For example, if necessary building repairs, renovations, or replacements are delayed, the ultimate costs may be unsustainable. Districts, like other organizations, must maintain and replace their capital assets. Otherwise, they face potential future costs to repair, renovate, or replace these assets, which may impair their ability to deliver needed services.

Over the past decade or so, governments and health experts are encouraging the shift of health services from institutions (e.g., hospitals, nursing homes) to services in the home and community. This shift is resulting in less need for new capital assets.

The following graph shows a trend in changes in capital assets owned by districts. From 1995 to 2001, capital assets increased slightly from $863 million to $915 million. This upward trend appears to indicate continued sustainability of the districts' services.

Graph 7



Summary on financial measures

We hope the above analysis will promote discussion and debate on the state of our Health System's finances. We also hope this analysis will encourage the Department to begin reporting on the financial targets and measures it uses to assess its financial performance.

Department needs to approve district plans on time

The Department should approve the districts' annual health plans before the fiscal year begins (April 1). The Department paid $1.4 billion to districts to provide health services.

Each year, the Department requires districts to prepare health plans that outline their financial and operational plans. The districts prepare these plans in consultation with the Department. The Department uses these plans to establish the districts' expected financial and operational performance.

The Health Districts Act requires the districts to submit their annual health plans to the Department for approval. The Department asked the districts to submit their health plans for the year April 1, 2000 to March 31, 2001 by May 15, 2000. We think the Department should receive and approve the health plans before the year begins.

Nine of the thirty-two districts received approval of their health plans in July 2000. Twenty-two districts received approval of their health plans in November 2000. The final district received approval in March 2001.

While the Department regularly discusses health plans with the districts, timely approval of the plans is important to ensure that the Department and the districts have a common understanding of annual and long-term priorities and goals. Making decisions without a common understanding of priorities and goals may result in the Department and the districts making inappropriate decisions.

We reported this matter in previous reports. In January 1999, PAC agreed with our recommendation and recommended that the Department should, to the best of its ability, provide the districts with an indication of their funding levels for the next two or three years. The Department has not done this.

We continue to recommend that the Department approve the health districts' annual health plans before their fiscal year begins (April 1).

Department needs better reports from districts

The Department needs complete and timely information to ensure the proper use of public money (total expenses $1.4 billion) entrusted to the districts.

District annual reports do not adequately show program performance compared to plan. The Department requires districts to report on their program performance compared to their plans in their annual reports. The Department has issued guidelines to help districts to prepare their annual reports.

We recognize that several districts have improved the quality of their annual reports by starting to report performance measures. However, the districts' annual reports still do not adequately report on program performance compared to planned performance. Many reports do not set targets for desired program and service outcomes, and do not show actual outcomes. As a result, the annual reports are not as effective as they could be in enabling the Department to assess the effectiveness of the districts' services on the health status of residents.

We also reported this matter in previous reports. In January 1999, PAC agreed with our recommendation.

We continue to recommend that the Department work with health districts to ensure they submit complete and timely performance reports.

Service agreements with district health boards need improvement

The Department needs to improve its service agreements with district health boards to ensure appropriate use of public money.

The Department carries out many of its responsibilities through districts. Therefore, the Department needs service agreements with districts to ensure that the delivery of health care by districts achieves the Department's objectives.

The service agreements are adequate, except that they do not require the districts to report periodically their assessments of the control they have established to achieve the Department's operational objectives. Control comprises those elements of a district (including its resources, systems, processes, culture, structure, and tasks) that, taken together, support people in the achievement of the Department's objectives. To meet its responsibilities, the Department must know that the districts have systems, processes, and other control elements to ensure the proper use of public money entrusted to the districts.

We also reported this matter in previous reports. In January 1999, the Standing Committee on Public Accounts (PAC) agreed with the following recommendation.

We continue to recommend that the Department work with health districts to ensure service agreements require districts to report periodically on the systems and practices they use to achieve the Department's operational objectives.

Service agreement needed

The Department needs a service agreement with Canadian Blood Services to ensure that it achieves the Department's objectives.

Canadian Blood Services (CBS), a not-for-profit organization, was incorporated in 1998 under *The Canada Corporations Act*. Its members are the provincial and territorial health ministers, except Quebec. The 13 member Board of Directors consists of the Chairperson, four regional appointees, six members providing business, scientific, medical, technical, or public health expertise, and two members from the general public representing consumers.

CBS owns and operates the national blood supply system, except for Quebec. Its activities include recruiting blood donors, collecting blood and blood products, testing and laboratory work, processing, storage, distribution and inventory management, quality control, and the purchase and distribution of commercial blood products. The blood and blood products are distributed to hospitals across Canada.

The Department must ensure safe blood products are provided to the citizens of Saskatchewan. The Department is also responsible for ensuring the blood supply system is effective. Therefore, the Department must ensure that the delivery of blood products by CBS achieve the Department's objectives.

CBS members provide annual contributions to pay for the operation of the blood supply system. For the year ended March 31, 2001 the Department provided CBS with $25.2 million. The Government of Canada and CBS members signed a Memorandum of Understanding (MOU) in December 1997 documenting their understanding regarding their respective roles and responsibilities in a renewed national blood system. However, the Department has not made a service agreement with CBS to ensure it achieves the Department's objectives.

The MOU includes the following information usually found in a service agreement:

- describes the authority and responsibility of the Department and CBS;
- describes the services to be provided;
- describes the basis for paying for those services; and

- allows the Department access to CBS' records and personnel to verify its reports, or to verify the reports using CBS' independent auditors.

The MOU, however, does not include the following matters usually addressed in a service agreement:

- describe the financial, operational, and compliance objectives needed to manage the delivery of Saskatchewan's blood supply through CBS successfully. The agreement should require CBS to carry out its work to meet those objectives;
- ensure the Department receives accountability reports from CBS, including reports showing planned and actual results, compliance with legislative and related authorities, and how well CBS met the Department's objectives; and
- require CBS to periodically report its assessments of the control it has established to achieve the Department's objectives.

We encourage the Department to make a service agreement that addresses the above deficiencies and the points already included in the MOU. The lack of a service agreement could result in inappropriate use of public money entrusted to Canadian Blood Services.

We reported the lack of a service agreement in a previous report. In May 2001, PAC agreed with our recommendation.

We continue to recommend that the Department make a service agreement with Canadian Blood Services to ensure it achieves the Department's objectives.

Department needs to improve its capital project agreements

The Department should improve its capital project agreements (total costs - $21.5 million) with districts to help ensure that the Department can meet its objectives for capital construction.

The Department makes capital project agreements with districts to construct or renovate health facilities. The agreements need to set out the performance information the Department needs on construction projects.

Chapter 6 Part D describes that the capital asset plans of two larger districts that we examined are inadequate. To ensure that the Department can meet its objectives for capital construction, the Department needs to receive adequate capital asset plans from the districts.

The agreements should require districts to provide timely reports to the Department on:

- where the construction project is at the date of the report (actual compared to plan for requirements, cost, work completed; and explanations of differences between planned and actual results);
- what has been accomplished since the last reporting period (actual compared to plan for cost and work completed, and explanations of differences between planned and actual results);
- the estimated time and cost to complete the construction project;
- the status of the expected benefits, whether the benefits are still achievable, and if not, the effects, if any, on the project plan; and
- the status of the construction project's risks, new risks, and how the risks are being managed. Reports would include explanations of any change in the status of key risks from the last reporting period and the reasons for the change in status.

Without this performance information, the Department cannot ensure that capital projects managed by districts meet the Department's objectives. As well, the agreements need to set out a process for the Department to verify that the districts' performance information is reliable.

We reported this matter in a previous report. In May 2001, PAC agreed with our recommendation.

We continue to recommend that the Department's capital construction agreements:

- require health districts to provide the Department with adequate and timely performance information on capital construction projects; and

- describe the Department's process for verifying performance information.

Policies needed for the Department's internal financial reporting

The Department needs clear written policies and procedures for preparing sound internal financial reports to ensure good management decisions are made.

The Department needs timely, complete, and accurate financial reports throughout the year to help it make sound decisions. Adequate written guidance approved by senior management would increase the likelihood of reliable internal reports. Reliable reports should result in better management decisions.

The Deputy Minister should approve the internal financial reporting policies and procedures to ensure that senior management receives the information it needs to manage the Department.

We reported this matter in previous reports. In January 1999, PAC agreed with the following recommendation.

We continue to recommend that:

- the Department document policies and procedures to prepare sound internal financial reports; and

- the Deputy Minister approve the Department's internal reporting policies and procedures.

Payee list required

The Department of Health did not identify the persons who received payments made through the Saskatchewan Prescription Drug Plan, and the amounts received, as recommended by PAC.

The Department made payments to pharmacies of $98.7 million on behalf of eligible recipients and $335,000 directly to eligible recipients.

In March 1993, PAC recommended: "All government departments, agencies, and Crown Corporations reporting to Treasury Board should provide a list of persons who have received money."

The Department thinks it should not have to disclose this information because it thinks the information should be confidential. The Assembly has allowed some exceptions to disclosing payees such as payments to doctors. Executive Council, Chapter 14 of our 2000 Fall Report – Volume 3, provides further discussion of this important issue. Chapter 14 also sets out a process PAC could use for deciding what information government agencies should disclose and to whom (process reprinted in Exhibit 1 on page 108 of this chapter).

We also reported this matter in previous years. In its Second Report to the 2nd Session of the 23rd Legislature, PAC recommended that the Department further review the issue of disclosure of persons who receive money from the Saskatchewan Prescription Drug Plan and report back to PAC on the implication of adopting the Provincial Auditor's recommendation.

At PAC's May 30, 2001 meeting, the Provincial Comptroller advised PAC of the Government's policy to not provide payee information for high-volume programs of a universal nature, or income security or other programs of a confidential and personal nature.

It is the Legislative Assembly's role to decide what information it needs from government agencies to hold the Government accountable for its administration of public money. To assist the Assembly in this role, we encourage PAC to decide whether it wants information on who received payments from the Saskatchewan Prescription Drug Plan and the amounts using the process in Exhibit 1.

We continue to recommend that the Department provide the Legislative Assembly with a list of persons who received money from the Saskatchewan Prescription Drug Plan and the amounts.

Saskatchewan Health Information Network

The Saskatchewan Health Information Network (the Corporation) was established as a Treasury Board Crown Corporation by Order in Council 581/1997 under the provisions of *The Crown Corporations Act, 1993* (Act) effective August 19, 1997.

The Corporation was created to design, implement, own, operate, and manage the Saskatchewan Health Information Network (Network). The Network's purpose is to foster the development of the health information technology sector, to foster re-engineering of health delivery processes, and to protect health information as a strategic resource.

The Corporation receives money from the General Revenue Fund (GRF) to acquire and develop capital assets and to operate these assets.

The Corporation's financial statements for the year ended March 31, 2001 report revenues of $6.4 million, a deficit for the year of $0.7 million, an accumulated surplus (i.e., net financial assets) of $1.2 million, and net tangible capital assets of $15.7 million.

As explained below, the Corporation's 2001 financial statements are not reliable. The financial statements understate the Corporation's revenues and overstate its deficit by $1.4 million (2000 – $2.4 million).

Reliability of financial statements

As stated earlier, the Corporation receives money from the GRF. It is clear how the Corporation is to spend this money. In 1997, Cabinet announced it was committing $40 million dollars for the initial development of the Network. On March 11, 1998, Order in Council 161/1998 authorized the Corporation to spend up to a maximum of $38 million under the terms of a Master Services Agreement with Science Applications International Corporation (Canada) for the development and acquisition of capital assets (e.g., computers, computer programs) related to the Network.

The Corporation received the following amounts from the GRF to develop and implement SHIN: $20 million in 1998; $5 million in 1999; $9.6 million in 2000 and $5.4 million in 2001. The money the Corporation receives to develop and acquire capital assets is restricted for that purpose. Therefore, the Corporation should record the money it receives from the GRF as debt of the Corporation (i.e., deferred revenue) until the Corporation incurs the project costs. When the Corporation incurs project costs, the Corporation should reduce the debt by the amount of the costs and record an equal amount as revenue. This practice follows the accounting recommendations of The Canadian Institute of Chartered Accountants (CICA).

However, the Corporation records the money it receives from the GRF as revenue of the Corporation regardless of whether or not the Corporation has incurred project costs. In our opinion, this practice does not follow the accounting recommendations of the CICA. For example, in 2000, the Corporation received $9.6 million from the GRF. The Corporation recorded the entire $9.6 million as revenue. However, the Corporation only used $8.2 million for those projects. Therefore, the Corporation incorrectly recorded $1.4 million of revenue because the Corporation had not incurred any project costs related to this money.

As a result the Corporation's financial statements for the year ended March 31, 2001, understate the Corporation's revenues and overstate its deficit by $1.4 million (2000 – $2.4 million).

We also reported this matter in our 2000 Fall Report, Volume 3 to the Legislative Assembly. In May 2001, the Public Accounts Committee considered this matter and noted that the CICA may be providing additional guidance on this issue in the future, and therefore, delayed a decision on our recommendation.

We continue to recommend that the Corporation record the money received from the General Revenue Fund for the acquisition of capital assets as a debt until the Corporation acquires the related assets.

We continue to recommend the Corporation amend its 2001 financial statements and table the revised financial statements in the Legislative Assembly.

The Corporation thinks its financial statements are in accordance with the recommendations of the CICA's Public Sector Accounting Board's recommendations which require grants to be recognized as revenue in the year they are provided, as long as the transfer is authorized, eligibility criteria, if any are met, and the amount can be estimated. The Corporation thinks that all three of these conditions have been satisfied with the respect to the grants received from the GRF.

Board of Governors, Uranium City Hospital

Order in Council #508/95 dated June 5, 1995 set up the Board of Governors, Uranium City Hospital (the Hospital). The Department has informed us that the Hospital will be closing within 18 months.

In 2000, the Hospital had revenues of $1.7 million, expenses of $1.6 million and held assets of $0.2 million. The Hospital plans to include its financial statements in its annual report.

We have not completed our work on the March 31, 2001 financial statements because the Hospital has not prepared its annual financial statements. We will report the results of our audit of the Hospital's financial statements in a future report.

Board needs to carry out its responsibilities

The Board is responsible to oversee the management of the Hospital's operations. To do this, the Board needs to approve and monitor the Hospital's code of conduct, set strategic and operating direction, and monitor management performance and control. Effective management and control are important for any organization to achieve its strategic and operating objectives.

Code of conduct needed

The Board needs to establish a code of conduct to document the ethical values to be followed by management and staff. A code of conduct is important because an organization's values affect everything it does. When choosing ethical values, the Board needs to consider integrity, objectivity, accountability, and leadership.

We also reported this matter in our 2000 Spring Report to the Legislative Assembly. In June 2001, the Standing Committee on Public Accounts (PAC) considered this matter and agreed with our recommendation.

We continue to recommend that the Board approve and adopt a code of conduct for the Hospital.

Conflict-of-interest guidelines needed

The Hospital's code of conduct needs to include a conflict-of-interest policy for management and staff.

It is important to have a conflict-of-interest policy to prevent or discourage management and staff from furthering their own interests instead of working to further the goals of the Hospital. A conflict-of-interest policy should require management and staff to disclose all situations where there may be a real or perceived conflict-of-interest.

We also reported this matter in our 2000 Spring Report to the Legislative Assembly. In June 2001, PAC considered this matter and agreed with our recommendation.

We continue to recommend that the Board establish and approve an appropriate conflict-of-interest policy.

Strategic plan required

The Board delegated to the Chief Executive Officer (CEO) the responsibility to manage and control the operations of the Hospital, and to report back to the Board on the achievement of the Board's objectives. Therefore, the Board must provide clear direction to the CEO and monitor the performance of the CEO. To do this, the Board needs to approve a strategic plan and an operating budget to reflect the plan.

During our examination, we noted that the Board did not approve a strategic plan. The Board approved an operating budget for the year ending March 31, 2001 before April 1, 2000. However, it did not approve an operating budget for the year ending March 31, 2002.

We also reported this matter in our 2000 Spring Report to the Legislative Assembly. In June 2001, PAC considered this matter and agreed with our recommendations.

We continue to recommend that the Board approve a strategic plan.

We continue to recommend that the Board annually approve an operating budget before the fiscal year begins.

Senior management positions require contracts

The Board has delegated to the CEO and the Chief Financial Officer (CFO) the responsibility to manage and control the operations of the Hospital. The Board should have contracts with the CEO and the CFO to outline the Board's expectations of their performance.

The Board has a contract with the CEO. The contract addresses pay, however, it does not address the services the CEO is to provide. The Board hired an accounting firm to handle the CFO function. The Board does not have a contract for services with this firm.

Without adequate contracts, it is difficult for the CEO and CFO to know what their responsibilities are. Also, it is difficult for the Board to hold the CEO and CFO accountable for their work and to assess their performance.

2. **We recommend that the Board prepare and approve adequate contracts for the Chief Executive Officer and Chief Financial Officer functions.**

The Board needs to define required periodic financial information

In our 1998 Fall Report – Volume 2, we recommended that the Board, with the help of senior management, define and document the Board's periodic financial reporting requirements to ensure it receives suitable and timely financial reports for decision-making.

In June 2001, PAC agreed with our recommendation. To date, the Board has not formally set out what financial reports it needs to receive from management and when.

We continue to recommend that the Board, with the help of senior management, define and document its periodic financial reporting requirements to ensure it receives suitable and timely financial reports for decision-making.

Financial reports for the Board need improvement

In our 1998 Fall Report – Volume 2, we recommended that the Board improve its internal financial reports.

In June 2001, PAC agreed with our recommendation.

The internal financial reports provided to the Board need improvement to ensure that the Board receives suitable and timely financial reports for decision-making.

We continue to recommend that the Board of Governors, Uranium City Hospital improve its internal financial reports to include:

- financial statements prepared in accordance with Canadian generally accepted accounting principles;
- a written explanation of major differences between year-to-date actual results and year-to-date budget;
- a projection of revenue and expenses to the end of the year based on current information; and
- actual amounts of the prior year for comparative purposes.

Management told us that in 2001/02 it intends to provide prior year numbers for comparison purposes.

Adequate rules and procedures required

For the Board to adequately manage and control the Hospital, the CEO has to adopt and communicate the code of conduct for the Hospital and establish adequate written rules and procedures to achieve the Hospital's objectives, and to safeguard and control the Hospital's assets.

Written rules and procedures provide for the orderly and efficient conduct of business. They help to ensure goods and services purchased are:

- authorized and appropriate;

- received and used for the operation and management of the Hospital;
- physically secured; and
- priced fairly.

Rules and procedures also reinforce the Board's delegation of authority and the responsibilities of all employees. Adequate written rules and procedures help reduce the risk of errors, fraud, breakdowns in control, and unauthorized transactions.

In the following paragraphs, we set out examples of where the Hospital's rules and procedures were not adequate to safeguard and control the Hospital's assets. The rules and procedures were inadequate because either the rules and procedures were not in place, or were not functioning properly. As a result, we found many payments where there is no evidence that the Hospital received any goods or services.

Bank account not controlled

Employees document their hours of work, but the hours worked are not approved by anyone. This lack of approval increases the possibility that the Hospital may pay for work not done. As a result, we are unable to determine how much of the $300,000 (union salaries and benefits) was for services provided to the Hospital.

Also, we found there were inadequate controls for ordering, receiving, and approving the purchase of goods and services for the Hospital. We examined 22 payments made by the Hospital. For seven payments, we were unable to verify that an authorized individual had approved the purchase order. For seven payments, there was no evidence of the goods being received. For 17 payments, there was no evidence of approval of the invoice for the payment by an authorized individual. In addition, there is no evidence that the second cheque signer reviewed the invoices before approving the payment. As a result, we are unable to determine how much of the $300,000 spent on goods and services were for the benefit of the Hospital.

We also reported this matter in our 2000 Spring Report to the Legislative Assembly. In June 2001, PAC considered this matter and agreed with our recommendation.

We continue to recommend that the Board of Governors, Uranium City Hospital establish adequate written rules and procedures to ensure that goods and services purchased are authorized and appropriate, received, and used for the operation and management of the Hospital, and that the prices paid are fair.

In addition, the Hospital agrees its records to its Bank's records (monthly statements). This procedure is intended to ensure that the Hospital's recorded transactions are authorized, accurate, and complete. However, this procedure is not sufficient because the employee who performs this procedure can change the Hospital's accounting records and has cheque-signing authority. Also, no other official approves this employee's work.

This lack of segregation of duties and independent approval could result in unauthorized transactions and losses of public money without timely detection.

3. **We recommend that the Board of Governors, Uranium City Hospital strengthen its rules and procedures to safeguard and control its bank accounts.**

Inventory not safeguarded

The Hospital needs to improve its control over its inventory.

The Hospital did not have adequate controls to safeguard and control its inventory. Improper controls over inventory can result in the loss of inventory. For example, the Hospital did not consistently lock, or otherwise prevent public access to its storage rooms and cabinets, which contain its supplies of linen, kitchen, and cleaning products. The Hospital would not know if some inventory went missing.

We also reported this matter in our 2000 Spring Report to the Legislative Assembly. In June 2001, PAC considered this matter and agreed with our recommendation.

We continue to recommend that the Board of Governors, Uranium City Hospital improve its control over the Hospital's inventory by securing vulnerable assets.

In addition, the Hospital did not have adequate procedures and instructions to conduct the annual inventory count. For example, it had no documented procedures for staff members to follow when they counted the inventory. This lack of rules and procedures may result in staff not counting the entire inventory. Inaccurate inventory counts could lead to an inability to reconcile inventory on hand to the accounting records and to errors in the Hospital's financial statements.

4. **We recommend that the Board of Governors, Uranium City Hospital prepare proper written inventory count procedures.**

Assessment of contracts required

The Hospital needs to assess all of its contracts to determine whether an employer-employee relationship exists between the Hospital and its contract employees.

The Canada Customs and Revenue Agency (CCRA) has guidance for determining whether an employer-employee relationship exists. The rules for Canada pension plan, employment insurance, and income tax deductions and contributicns are different if an employer-employee relationship exists.

The Hospital has fifteen contract employees. The Hospital does not make deductions from contract employees' pay for Canada pension plan, employment insurance, and income tax. Also, it does not contribute the employer's portion of the Canada pension plan and employment insurance for these contract employees to CCRA.

The Hospital recently received a ruling from CCRA for one of its contract employees stating that an employer-employee relationship does exist for that employee. As a result, the Hospital is not complying with the requirements of CCRA for at least one of its contract employees. Therefore, the Hospital may be subject to penalties and retroactive contributions if CCRA determines that an employer-employee relationship exists for all of the Hospital's contract employees. Because the Hospital has not obtained a ruling from CCRA for all its contract employees to confirm that an employer-employee relationship does not exist, we are unable to determine if the Hospital is complying with CCRA's requirements.

5. **We recommend that the Board of Governors, Uranium City Hospital obtain a ruling from Canada Customs and Revenue Agency for all its contract employees to determine whether an employer-employee relationship exists with its contract employees and then take deductions accordingly.**

Management told us it plans to appeal CCRA's ruling.

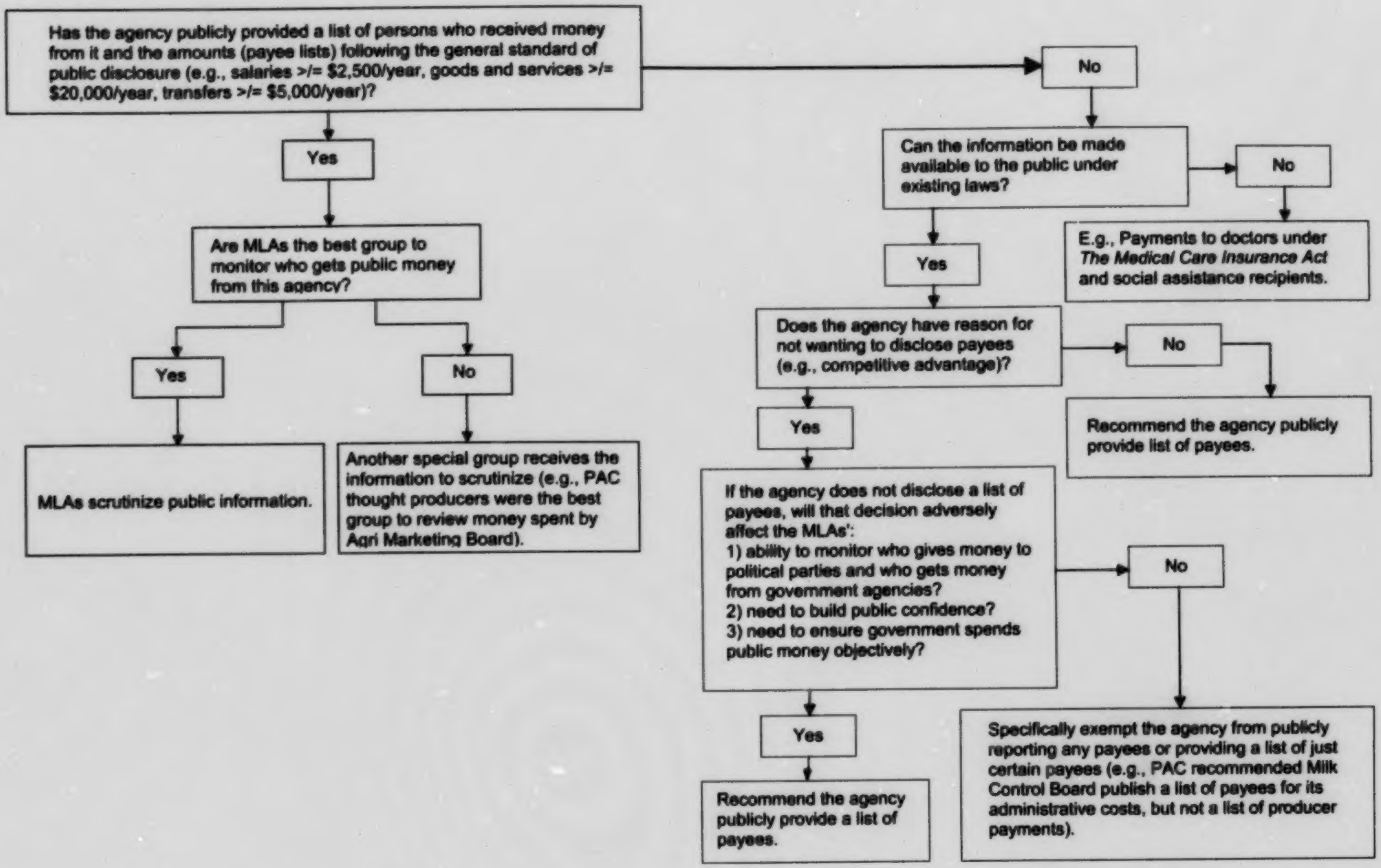
External reporting requirements not met

The Public Health Act requires the Hospital to give its financial statements to the Assembly according to *The Tabling of Documents Act, 1999*.

The Board did not give its March 31, 2001 financial statements to the Assembly by the date required in the Act, i.e., September 28, 2001.

6. **We recommend that the Board of Governors, Uranium City Hospital give its financial statements to the Assembly by the date required by *The Tabling of Documents Act, 1999*.**

Exhibit 1 – Suggested criteria for MLAs' use for deciding what information government agencies should disclose and to whom


Has the agency publicly provided a list of persons who received money from it and the amounts (payee lists) following the general standard of public disclosure (e.g., salaries >/= $2,500/year, goods and services >/= $20,000/year, transfers >/= $5,000/year)?
Yes
Are MLAs the best group to monitor who gets public money from this agency?
Yes
MLAs scrutinize public information.
No
Another special group receives the information to scrutinize (e.g., PAC thought producers were the best group to review money spent by Agri Marketing Board).
No
Can the information be made available to the public under existing laws?
No
E.g., Payments to doctors under *The Medical Care Insurance Act* and social assistance recipients.
Yes
Does the agency have reason for not wanting to disclose payees (e.g., competitive advantage)?
No
Recommend the agency publicly provide list of payees.
Yes
If the agency does not disclose a list of payees, will that decision adversely affect the MLAs':
1) ability to monitor who gives money to political parties and who gets money from government agencies?
2) need to build public confidence?
3) need to ensure government spends public money objectively?
Yes
Recommend the agency publicly provide a list of payees.
No
Specifically exempt the agency from publicly reporting any payees or providing a list of just certain payees (e.g., PAC recommended Milk Control Board publish a list of payees for its administrative costs, but not a list of producer payments).

Department of Health financial statements

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Introduction

In Part A, we recommend that the Department include in its annual report a complete set of financial statements prepared in accordance with Canadian generally accepted accounting principles. The purpose of this chapter is to further discuss the benefits of preparing these financial statements and to show what financial information we think should be included.

The Department of Health does not publish complete financial statements showing all of its assets, liabilities, revenues, and expenses. The Department's annual report (and the Public Accounts) shows most of the Department's revenues and expenses, but not its assets and liabilities.

We have prepared *pro forma* consolidated financial statements for the Department (see Exhibit 1). We have done this 1) to encourage the Department to prepare annual financial statements and 2) to help the Legislative Assembly and the public to understand the financial position and results of operations of the Department.

Benefits of Department of Health financial statements

The Minister of Health is accountable to the Assembly for the financial position and the results of operations of our public health system. Financial statements for the Department would help the Assembly to assess the Minister's and the Department's financial management of the health system. The financial statements would include all organizations that the Minister is responsible for, i.e., the Department, the 32 health districts and five Crown agencies. These entities are listed in Note 3(a) to the financial statements set out in Exhibit 1.

Also, these financial statements would help the Minister and the Department's management to carry out their responsibilities. They need this information regularly to assess the Department's financial performance and to make decisions.

Preparing the financial statements

We prepared the financial statements from information that was readily available. Information not readily available has been omitted. These *pro forma* financial statements have not been audited.

Basis of accounting

The accounting and reporting principles used to prepare the *pro forma* financial statements in Exhibit 1 are based on recommendations of the Public Sector Accounting Board (PSAB) of The Canadian Institute of Chartered Accountants (CICA), except the *pro forma* financial statements include the Department's tangible capital assets on the Statement of Financial Position (SOFP). Currently, the CICA recommends showing information about tangible capital assets on a separate statement. The *pro forma* financial statements include the capital assets on the SOFP because that presentation results in better disclosure of the Department's total assets. This presentation is consistent with the summary financial statements of four other provincial governments in Canada that show capital assets on the SOFP. Further, the CICA is now proposing to financial statements preparers and auditors that its recommendations be amended to require inclusion of capital assets on the SOFP. Senior staff of the CICA advises us that the CICA is receiving generally positive feedback from preparers and auditors on this proposed recommendation.

Accounting for transactions with the GRF

The Department of Health receives annual appropriations from the General Revenue Fund (GRF) to pay for the health system's operating and capital costs. The *pro forma* consolidated financial statements reflect GRF appropriations received by the Department as revenue.

Costs borne by other government organizations

These financial statements are useful and a good first step. However, they would be more useful if the Government allocated all costs to the Department. To properly understand and assess the Department's performance, it is important for the accounting information collected and presented about the Department's activities to be complete and accurate. Information about the full cost of programs is needed.

Governments commonly direct their supervising agencies to pay for certain costs on behalf of individual agencies. For example, on behalf of several departments and agencies, the Department of Finance pays the employer's share of required contributions to employee pension plans and of premiums for Canada pension plan, employment insurance, and workers' compensation. The Government could easily allocate these direct costs to the agencies to which they relate. Other indirect costs may be more difficult to allocate. These indirect costs are borne by the supervising agencies that provide services for many agencies, such as legal services, banking services, central accounting and computer services, and human resource services.

One very significant cost that is not reflected as an expense of any department or Crown agency is the annual pension expense for the Public Service Superannuation Plan. This cost exceeds $100 million each year.

Another significant item is the debt that the Department of Finance incurs for general government purposes, and the interest costs on that debt. Excluding debt and interest costs from the financial statements of departments reduces their usefulness.

Financial statements would be most useful if all of the costs were recognized. At a minimum, costs not recognized by the Department should be disclosed in the notes to its financial statements.

Developments outside Saskatchewan

Some governments (e.g., United States, Australia, Alberta) currently prepare financial statements for their departments. In Alberta, the Public Accounts contain the annual report of the Government of Alberta and the annual reports of each of its ministries. Each ministry's annual report includes consolidated ministry financial statements as well as individual financial statements of the applicable department and other entities making up the ministry. Each Minister is held accountable for the performance results compared to the desired results set out in the ministry's business plan.

Recommendation

We encourage the Department to prepare financial statements showing the total assets, liabilities, revenues and expenses that are the responsibility of the Minister of Health and the Department. This will improve public accountability and decision-making.

We also reported a similar matter in our 2000 Fall Report – Volume 3 relating to the Department of Agriculture. In March 2001, the Public Accounts Committee (PAC) considered this matter and did not concur with our recommendation. PAC noted that the Government currently provides financial accountability to the public through the Estimates, the Public Accounts, and the Mid-Year Report. In addition, the Government's accountability project is currently addressing performance management and accountability. Also, PAC noted that the CICA might report on this issue.

We think that the Government should report on the financial results of its key sectors such as Health. In Part A of this chapter, we recommend that the Department include a complete set of financial statements in its annual report prepared in accordance with Canadian generally accepted accounting principles for the public sector.

Exhibit 1

Department of Health

Pro Forma
Consolidated Financial Statements
For the Year Ended March 31, 2001
(unaudited)

Statement 1

DEPARTMENT OF HEALTH
PRO FORMA
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at March 31
(unaudited)

	2001	2000
	(in thousands of dollars)	
FINANCIAL ASSETS		
Cash and temporary investments	$ 136,536	$ 104,853
Accounts receivable	38,297	48,652
Other investments (Note 3c)	40,994	46,395
Total financial assets	215,827	199,900
LIABILITIES		
Accounts payable and accrued liabilities	$ 169,352	$ 165,905
Bank loans	31,394	36,827
Deferred revenue (Note 5)	37,996	44,815
Long-term debt (Note 4)	94,753	92,103
Total liabilities	333,495	339,650
Net debt (Statement 3)	(117,668)	(139,750)
Tangible capital and other assets (Note 3d)		
Tangible capital assets (Note 3e and 6)	954,927	966,454
Inventory of supplies & prepaid expenses (Note 3f)	29,706	28,515
	984,633	994,969
Accumulated surplus (Statement 2)	$ 866,965	$ 855,219

Commitments (Note 10)
Contingencies (Note 11)

(See accompanying notes to the financial statements)

Statement 2

DEPARTMENT OF HEALTH
PRO FORMA
CONSOLIDATED STATEMENT OF OPERATIONS
Year Ended March 31
(unaudited)

	Budget (Note 9)	2001	2000
		(in thousands of dollars)	
Revenue			
Transfers from the General Revenue Fund	$	$ 2,075,650	$ 1,955,736
Service fees revenue		109,288	99,513
Transfers from other governments		22,874	21,486
Donations		17,154	11,651
Investment income		11,512	10,645
Ancillary		18,098	17,450
Other		37,841	42,927
		2,292,417	2,159,408
Expense			
Acute services		863,969	832,180
Supportive care services		413,789	382,229
Medical services and education		401,221	383,590
Prescription drug plan and extended benefits		140,620	127,952
Home based services		90,996	86,402
Provincial health services		77,756	64,288
Mental health services		57,558	54,941
Community health services		53,169	51,695
Rehabilitation services		42,832	43,407
Emergency response services		34,876	25,156
Health improvement initiatives		27,356	25,320
Administration		20,266	35,490
Ancillary		12,162	12,128
Alcohol and drug services		13,176	12,584
Other		30,925	25,870
		2,280,671	2,163,232
Annual surplus (deficit)		11,746	(3,824)
Accumulated surplus, beginning of year		855,219	859,043
Accumulated surplus, end of year (Statement 1)	$	$ 866,965	$ 855,219

(See accompanying notes to the financial statements)

Statement 3

DEPARTMENT OF HEALTH
PRO FORMA
CONSOLIDATED STATEMENT OF CHANGE IN NET DEBT
Year Ended March 31
(unaudited)

	2001	2000**
	(in thousands of dollars)	
Annual surplus (deficit)	$ 11,746	$ (3,824)
Purchase of tangible capital assets	(68,705)	
Amortization of tangible capital assets	80,232	
	11,527	
Acquisition of supplies inventory and prepaid expenses	**	
Consumption of supplies inventory and prepaid expenses	**	
	(1,191)	
(Increase) decrease in net debt	22,082	
Net debt, beginning of year	(139,750)	
Net debt, end of year (Statement 1)	$ (117,668)	$ (139,750)

** information not readily available

(See accompanying notes to the financial statements)

Statement 4

DEPARTMENT OF HEALTH
PRO FORMA
CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended March 31
(unaudited)

	2001	2000**
	(in thousands of dollars)	
Operating activities:		
Transfers from the GRF	$ 2,075,650	$
Transfers from other governments	22,874	
Service fees and other revenue received	193,893	
Salaries and benefits paid to employees	(1,055,423)	
Medical services and other operating costs paid to suppliers	(1,139,224)	
	97,770	
Investing activities:		
Sale of investments	5,401	
Purchase of tangible capital assets	(68,705)	
	(63,304)	
Financing activities:		
Proceeds from debt	2,650	
Increase (decrease) in cash	37,116	
Cash position, beginning of year	68,026	
Cash position, end of year	$ 105,142	$
Cash position is comprised of the following:		
Cash and temporary investments	$ 136,536	$ 104,853
Less bank loans	31,394	36,827
Total	$ 105,142	$ 68,026

** information not readily available

(See accompanying notes to the financial statements)

DEPARTMENT OF HEALTH
PRO FORMA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2001
(unaudited)

1. Legislative Authority

The Department of Health is continued under *The Department of Health Act* (Act). The Minister of Health is responsible for the Department and all of its Crown agencies. According to the Act, the Minister and the Department are to promote the health of the people of Saskatchewan.

2. Mandate

The Department's mandate is to support Saskatchewan people to achieve their best possible health and well-being. The Department's annual report explains how it carries out its mandate.

3. Significant Accounting Policies and Reporting Practices

The Department is responsible for preparing these consolidated financial statements in accordance with Canadian generally accepted accounting principles as recommended by the Public Sector Accounting Board of The Canadian Institute of Chartered Accountants (CICA). These financial statements are in accordance with CICA recommendations, except they include the Department's tangible capital assets on the Statement of Financial Position (SOFP). Currently, the CICA recommends showing information about tangible capital assets on a separate statement. The pro forma financial statements include the capital assets on the SOFP because that presentation results in better disclosure of the Department's total assets.

a) Reporting entity and consolidation principles

These consolidated financial statements include the accounts of the departmental entity (Saskatchewan Health) and the accounts of the following Crown agencies that are accountable to, and are the responsibility of, the Minister of Health. For further information, readers should refer to the individual financial statements of these agencies that are prepared annually. Financial statements for the 32 district health boards may be obtained from the respective districts. For those districts with foundations, the foundation's financial statements may also be obtained from the respective districts. Financial statements for the other Crown agencies are submitted annually to the Legislative Assembly and may be obtained from the respective Crown agencies.

Crown Agencies

32 district health boards (including St. Paul's Hospital (Grey Nuns) of Saskatoon) and their foundations, where applicable
Saskatchewan Cancer Foundation
Saskatchewan Health Information Network

Health Services Utilization and Research Commission
St. Louis Alcoholism Rehabilitation Centre Inc.
Board of Governors, Uranium City Hospital

All of the Department's Crown agencies are government service organizations. They are accounted for using the accounting policies described below. In addition, significant transactions and balances between these entities are eliminated.

In these financial statements, the term "Department" is used to collectively describe the activities of the entire reporting entity.

b) Accrual Basis of Accounting

The financial statements are prepared on the accrual basis of accounting. This reflects transactions when they occur, rather than when they are settled.

c) Investments

Investments are recorded at cost, which approximates fair value.

d) Other assets

In the public sector, recognition and valuation of tangible capital assets and other non-financial assets are based on their service potential. For the most part, such assets do not generate future net cash inflows. Therefore, these assets will not provide resources to discharge the liabilities of the government. For government non-financial assets, the future economic benefit consists of their capacity to render service to further the government's objectives.

e) Tangible capital assets

These financial statements report financial results on the expense basis. Accordingly, tangible capital assets, with a life exceeding one year, are amortized on a straight-line basis over their useful lives.

f) Inventory

Inventory consists of medical and surgical supplies, drugs, and other supplies. All inventories are valued at cost, determined either on an average cost basis or on the first in, first out, basis.

g) Revenue

Revenues are recorded on the accrual basis of accounting. Government transfers (e.g., transfers from the General Revenue Fund (GRF)) are recognized as revenue in the period during which the transfer is authorized and any eligibility criteria are met. Amounts received for which goods or services have not been provided, or for which the related expenses have not been incurred, are recorded as deferred revenue.

h) Employee pension and benefit costs

These financial statements do not reflect the cost of benefits that are paid for by the Department of Finance. This includes a portion of the employer's share of the costs related to the Government's pension plans (the Public Service Superannuation Plan (PSSP) and the Public Employees Pension Plan (PEPP)), the Canada pension plan, employment insurance, workers' compensation, and dental and life insurance plans.

i) Transfers to organizations and individuals

Authorized entitlements to eligible recipients are recognized as expenses when entitlements become due, if the amounts can be reasonably estimated (e.g., supplementary health benefits).

Grants are recorded as expenses when they have been approved and the eligibility criteria, if any, have been met by the recipient.

4. Long-term Debt

These financial statements show only part of the Department's debt. The Department of Finance administers most debt on behalf of all government departments. The Government incurred this debt to pay for departments' capital assets and annual operating deficits. There is currently no process for allocating Saskatchewan Health's share of this debt. Therefore, no provision has been made in these financial statements for this debt, and related financing costs, pertaining to Saskatchewan Health.

For the debt recorded in these financial statements, most of it consists of mortgages issued to district health boards to finance the acquisition of health facilities. A number of mortgages are held by Canada Mortgage and Housing Corporation (CMHC). For most mortgages, the boards have pledged the related buildings as security. Stated interest rates vary from 5.125% to 10.5% per annum. As CMHC subsidizes most of the mortgages, the effective interest rates for subsidized mortgages are considerably lower than the stated rates.

Required principle repayments are as follows (in thousands of dollars):

2002	$ 4,495
2003	4,219
2004	3,436
2005	3,647
2006	3,700
Thereafter	75,256

5. Deferred Revenue

Included in deferred revenue are community trust funds totalling $21.6 million at March 31, 2001 (2000 - $24.2 million). The community trust funds represent assets transferred to the district health boards in accordance with pre-amalgamation agreements signed with amalgamating health corporations. The assets include cash and investments initially accumulated by health corporations in the districts from donations or municipal tax levies. These community trust fund assets are subject to restrictions set out in the pre-amalgamation agreements.

Deferred revenue also includes $5.9 million received in advance from the Federal Government for the construction of the Fort Qu'Appelle Indian Hospital and the Athabasca Health Authority hospital in Stony Rapids. Deferred revenue is recorded as revenue as the related costs are incurred.

6. Tangible Capital Assets

	Land and Improvements	Buildings	Equipment	Totals 2001	Totals 2000**
	(in thousands of dollars)				
Estimated useful life	5-40 yrs	10-40 yrs	3-20 yrs		
Cost, beginning of year	$ 21,250	$ 1,198,553	$ 544,532	$ 1,764,335	$
Additions	672	42,267	25,766	68,705	
Disposals	—	—	—	—	
Cost, end of year	21,922	1,240,820	570,298	1,833,040	
Accumulated amortization, beginning of year	8,166	416,226	373,489	797,881	
Amortization	460	40,530	39,242	80,232	
Disposals	—	—	—	—	
Accumulated amortization, end of year	8,626	456,756	412,731	878,113	
Net book value	$ 13,296	$ 784,064	$ 157,567	$ 954,927	$ 966,454

** information not readily available

7. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards, and commissions related to the Department by virtue of common control or significant influence by the Government of Saskatchewan.

Routine operating transactions with related parties are settled at the standard rates charged by those agencies and are settled on normal trade terms. These transactions are as follows (in thousands of dollars):

	2001	2000
Revenue	information not readily available	
Expenses		
Accounts receivable		
Accounts payable		

Other transactions and amounts due to or from related parties are disclosed separately in these financial statements and the notes thereto.

Saskatchewan Health receives certain services from other departments without charge including legal services, banking services, central accounting and computer services, and human resource services. Due to the difficulty in allocating the cost of these services to individual departments, no provision for such costs has been included in these financial statements.

8. Pension Plans

Employees of the Department participate in one of three pension plans operated by related parties: the retirement plan of the Saskatchewan Association of Health Organizations

(SAHO), the Public Service Superannuation Plan (PSSP), and the Public Employees' Pension Plan (PEPP).

The SAHO plan is a multi-employer defined benefit plan that is the responsibility of SAHO. PSSP is also a defined benefit plan (closed to new members in 1977) that is the responsibility of the Government of Saskatchewan. PEPP is a defined contribution plan that is also the responsibility of the Government of Saskatchewan.

The pension expense pertaining to PEPP is an amount slightly greater than the amounts employees must contribute for current service. This cost is paid from the Department of Finance's appropriation for Saskatchewan Health employees (therefore no expense has been recorded in these financial statements). The Crown agencies contribute to PEPP and SAHO plans on behalf of their employees.

Like all departments, Saskatchewan Health does not pay for the cost of PSSP. The Department of Finance pays from its appropriation, on Saskatchewan Health's behalf, the pension allowances to retired employees when they become due. No liability for pension plans relating to Saskatchewan Health's employees has been recorded in these financial statements.

9. Budget

The Department did not prepare a consolidated budget for 2001 that includes all of the entities it controls. The Government's Estimates only include budget figures for Saskatchewan Health. Individual entities prepare budgets for their own operations. For a comparison of budget to actual amounts for entities in the reporting entity, readers should refer to Volume 2 of the Public Accounts, the Financial Statements Compendium, and to the individual entities' financial statements.

Financial resources were administered by the Department in accordance with the legislation.

10. Commitments

Minimum annual lease payments required by operating leases on property and equipment over the next five years are as follows (in thousands of dollars):

2002	$ 7,084
2003	6,836
2004	6,716
2005	5,801
2006	5,752

11. Contingencies

Several health districts are defendants to claims that have been brought against them because of their medical operations. The districts think these claims are without merit and, accordingly, have not made any provision for losses in their accounts. All claims, except for one in the amount of $6 million, are covered by insurance. Settlements, if any, in excess of insurance coverage, would be accounted for as a charge against operations in the period in which the settlements arise.

Regina District Health Board and Worker's Compensation Board (WCB), a related party, jointly constructed the Wascana Rehabilitation Centre for their shared use. The district manages the facility. Should WCB wish to terminate this agreement, the District must return WCB's funding contribution, less amortization over a 40 year term. At March 31, 2001 that amount is $8.4 million.

12. Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

- The carrying amounts of these financial instruments approximate fair value due to their immediate or short-term nature.

  cash and temporary investments
  accounts receivable
  accounts payable and accrued liabilities
  bank loans

- For other investments, the fair value is considered to approximate quoted market values.
- The fair value of debt payable is $94.1 million and is determined using discounted cash flow analysis based on current incremental borrowing rates for similar borrowing arrangements.

13. Trust Funds

The Department administers funds held in trust for patients and residents, for clinical research and for other purposes. The total cash held in trust at March 31, 2001 was $4.2 million. These amounts are not reflected in the financial statements.

14. Restricted Accumulated Surplus

There are restrictions placed on $2.5 million of the entity's accumulated surplus by funding contributors that the districts are to use for research and equipment purchases.

15. Expenses By Object

	2001	2000
	(in thousands of dollars)	
Salaries and benefits	$ 1,059,684	$ 1,013,994
Operating costs *	382,680	361,347
Medical services	399,827	374,575
Prescription Drug Plan	99,062	85,466
Transfers to other health care providers	149,046	139,526
Canadian Blood Services	25,173	22,803
Saskatchewan Aids to Independent Living	21,052	18,917
Medical education	19,703	21,105
Supplementary health benefits	17,286	17,237
Interest	8,688	7,750
Amortization	80,232	82,875
Other	18,238	17,637
Total	$ 2,280,671	$ 2,163,232

* Costs include medical & surgical supplies and drugs, utilities, repairs and maintenance, food, prosthetics, and housekeeping and laundry supplies. Due to inconsistencies in how the districts and Crown agencies report these expenses in their financial statements, an accurate breakdown of these costs is not readily available.

16. Reconciliation to Summary Financial Statements

	(in thousands of dollars)
Summary Financial Statements (SFS) health expenditure	$ 2,223,259
Difference in tangible capital asset, inventory, and district health board foundations accounting policies	16,105
Inter-entity expense eliminations and adjustments within the SFS reporting entity not recorded in health's financial statements	32,835
Other	8,472
Total expense per health financial statements (Statement 2)	$ 2,280,671

District Health Boards

6C

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Glossary

Goal – general statements of desired ends to be achieved over an unspecified period of time.

Health need – the capacity to benefit from health care interventions whether to protect, improve, or restore health status.

Objective – measurable, time-defined ends or results to be achieved that lead to the achievement of each goal.

Outcome – consequence or end result of activities.

Performance measure – a factor chosen to monitor success in achieving objectives.

Performance target – targets are quantifiable estimates of results that are expected over a specific time period.

Restricted fund – funds that are subject to certain restrictions and are not available to a district for general use.

Introduction

The Government created 32 health districts under *The Health Districts Act* (Act). The Act requires the districts to deliver health services. Their responsibilities include:

- assessing the health needs of persons to whom they provide services;
- planning, managing, delivering, and integrating the provision of health services;
- promoting health and wellness; and
- reporting publicly on the health status of the districts' residents and on the effectiveness of the districts' programs.

Financial summary

We obtained the following financial information from the audited financial statements of the 32 districts. The combined revenue and expenses of the districts for the years ended March 31, 2001 and 2000 are:

	Operating Fund	Capital Fund	Restricted Fund	Total 2001	Total 2000
	(in thousands of dollars)				
Revenue	$ 1,495,330	$ 76,134	$ 2,240	$ 1,573,704	$ 1,484,730
Expense	1,483,499	90,266	457	1,574,222	1,502,859
Surplus (Deficit)	11,831	(14,132)	1,783	(518)	(18,129)
Beg. fund balance	(61,365)	856,679	24,182	819,496	837,625
Transfers	(7,445)	11,801	(4,356)	—	—
End fund balance	$ (56,979)	$ 854,348	$ 21,609	$ 818,978	$ 819,496

The total assets, liabilities, and fund balances of the 32 districts at March 31, 2001 and 2000 are:

	2001	2000
	(in thousands of dollars)	
Assets	$ 1,134,760	$ 1,140,625
Liabilities	315,782	321,129
Fund balances:		
Operating funds	(56,979)	(55,442)
Capital funds	854,348	850,708
Restricted funds	21,609	24,230
Total liabilities and fund balances	$ 1,134,760	$ 1,140,625

Our audit conclusions and findings

For the year ending March 31, 2001, we audited 10 of the 32 districts. For nine of those districts, we carried out our audit responsibilities by working with the auditors hired by the districts. We performed the audit work at the Regina District Health Board.

For the districts we worked with other auditors on, we followed the framework recommended in the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors* (to view a copy of this report, see our website at http://www.auditor.sk.ca/rrd.html). Together with the health districts' auditors, where applicable, we formed the opinions set out below.

Exhibit 1 lists the 10 districts we audited in 2000-2001. The exhibit also shows the districts that we plan to audit for the year ending March 31, 2002 and future years.

Exhibit 1:

Audit rotation for health districts

Districts selected for the year ended March 31, 2001

For the year ending March 31, 2001, we audited Regina and Saskatoon; two of the four mid-sized districts (Moose Jaw-Thunder Creek and Prince Albert); and six smaller districts (Assiniboine Valley, Living Sky, Lloydminster, North Valley, South East, and Twin Rivers).

Districts selected for the year ending March 31, 2002 and future years

We plan, each year, to audit the two largest districts; two of the four mid-sized districts; and six smaller districts.

For the year ending March 31, 2002, we plan to audit Regina and Saskatoon; two of the four mid-sized districts (Battlefords and East Central); and six smaller districts (Parkland, Pasquia, North Central, Rolling Hills, South Central, and Touchwood Qu'Appelle).

In our opinion, for the ten districts that we examined for the year ended March 31, 2001, the districts' financial statements are reliable.

In our opinion, for nine of the ten districts that we examined for the year ended March 31, 2001:

- **the districts had adequate rules and procedures to safeguard and control their assets, except where we report otherwise in this chapter; and**
- **the districts complied with the authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing, except where we report otherwise in this chapter.**

The districts' appointed auditors and our Office formed the opinions referred to above with three exceptions.

The reports of the appointed auditor of the Saskatoon District Health Board did not report the need for the District to report on its performance as noted on pages 132 to 135 and 137 to 138. In the appointed auditor's opinion, the District's internal and external reports were adequate. We disagreed.

The reports of the appointed auditor of the Lloydminster District Health Board did not report the need for the District to improve its internal financial information to the board of directors and to comply with the law as noted on pages 132 to 133 and 137 to 138. In the appointed auditor's opinion, the District's internal financial information is adequate and the District complied with the law. We disagreed.

We did not rely on the appointed auditor of the Moose Jaw-Thunder Creek District Health Board to determine whether the District had adequate rules and procedures to safeguard and control its assets or whether the District complied with the law. The appointed auditor did not do sufficient work for us to form our opinions on those matters.

Where we are unable to rely on the work and reports of appointed auditors, *The Provincial Auditor Act* requires us to do additional audit work.

For Saskatoon and Lloydminster districts, our additional work consisted of reviewing the districts' internal financial reports and other accountability reports, and discussing areas of concern with management.

For the Moose Jaw-Thunder Creek District Health Board, we plan to do additional audit work consisting of reviewing the District's system of controls, compliance with the law, and performing such tests as we consider necessary. We plan to report the results of this work in our 2002 Spring Report.

In this chapter, we organize our audit findings and recommendations into four groupings. These groupings reflect important responsibilities of the boards of directors in their role of overseeing the districts' operations. These are:

- setting direction and monitoring performance;
- safeguarding assets;
- complying with the law; and
- other requirements.

Setting direction and monitoring performance

The boards of directors of all the districts that we examined need to continue to improve how they set direction and monitor their districts' performance.

Financial results

For five of the nine districts that we examined (Living Sky, Lloydminster, Regina, Saskatoon, and Twin Rivers), the boards of directors need better internal financial information to monitor their performance.

The Lloydminster, Regina, and Saskatoon health districts have not formally defined and documented their financial information needs. The boards of directors need to ensure that they receive the information necessary to monitor the districts' financial performance.

For each of the districts named in parenthesis, the interim financial reports that their boards of directors receive need improvement.

- The interim financial reports are not prepared in accordance with Canadian generally accepted accounting principles. The interim reports do not regularly include the results of operations of the district's affiliates (Regina). The interim financial reports do not include the board's assets and liabilities (Living Sky, Lloydminster, and Twin Rivers).
- The interim financial reports do not provide adequate explanations of differences between planned results for the period and year-to-date with actual results for the period and year-to-date (Living Sky, Lloydminster, Regina, Saskatoon, and Twin Rivers).
- The interim financial reports do not include a forecast of expected results to the year-end based on current information (Lloydminster, Regina, and Saskatoon).
- The interim financial reports are not provided to the boards on a timely basis (Living Sky and Twin Rivers).

We reported similar matters in previous reports to the Legislative Assembly. In January 1999, the Standing Committee on Public Accounts (PAC) considered these matters and agreed with our recommendations for improvement.

1. **We continue to recommend, for each of the districts named in parenthesis, that:**
    - **boards of health districts formally define and document their financial information needs (Lloydminster, Regina, and Saskatoon).**
    - **boards of health districts receive better and timely interim financial reports to enable them to assess the financial performance of their districts (Living Sky, Lloydminster, Regina, Saskatoon, and Twin Rivers).**

Operating results

In setting direction and monitoring performance, the board needs to advise management what health outcomes the board expects and the measures and targets needed to monitor progress in achieving the outcomes.

The boards of Assiniboine Valley, Living Sky, North Valley, South East, and Twin Rivers health districts need to approve desired outcome measures. They need to tell their management what health outcomes they expect and what measures to monitor progress in achieving those outcomes.

In addition, the boards of all districts we examined, except for Lloydminster, need to approve performance targets. Targets are precise, usually quantified statements of what a district plans to achieve in a future period. Targets indicate the desired level of performance including the quantity, quality, and timing of performance.

To establish the desired performance targets and measures, the districts need to continue to work on assessing the health needs and health status of residents to establish expected long-term health outcomes. Once the boards have set desired performance targets and measures, they will have to consider the effect this will have on the types, costs, and volumes of district services.

The boards then need to receive reports showing the districts' progress toward achieving the board's targets. Although Lloydminster Health District has approved targets, management did not prepare reports during the year showing the district's progress toward achieving the Board's targets. Without progress reports, boards are unable to fully assess the effectiveness of their services in improving the health status of residents. We recognize measuring and reporting on the health status of residents and the effectiveness of services will take time and resources.

We reported this matter in previous reports to the Legislative Assembly. In January 1999, PAC considered this matter and agreed with our recommendations for improvement.

2. **We continue to recommend that:**

   - **boards of directors continue to formally define and document the health outcomes that the boards expect and the measures needed to monitor progress in achieving the outcomes (Assiniboine Valley, Living Sky, North Valley, South East, and Twin Rivers);**

   - **boards of directors approve the targets needed to monitor progress in achieving the outcomes (Assiniboine Valley, Living Sky, North Valley, Prince Albert, Regina, Saskatoon, South East, and Twin Rivers); and**

   - **districts' internal reports on health outcomes compare actual performance for services delivered to planned performance (all districts).**

Safeguarding assets

Written and approved rules and procedures needed

Three of the districts that we examined (Assiniboine Valley, Regina, and South East) need better written rules and procedures to help safeguard their assets.

Boards of directors must ensure management has established adequate written rules and procedures to safeguard and control the districts' assets. The boards should then approve the rules and procedures. Once adequate rules and procedures are in place, management must ensure that these rules and procedures are followed to safeguard and control the districts' assets.

Written rules and procedures provide for the orderly and efficient conduct of business. They also reinforce the boards' delegation of authority and the responsibilities of all employees. Adequate written rules and procedures help reduce the risk of errors, fraud, breakdowns in control, and unauthorized transactions.

We reported a similar matter in previous reports to the Legislative Assembly. In January 1999, PAC agreed with our recommendation for improvement.

3. **We continue to recommend that management establish, the boards approve, and management implements written rules and procedures to safeguard and control health districts' assets to ensure the:**

   - **preparation of written and tested contingency plans (Assiniboine Valley);**
   - **capital asset records are prepared (Regina);**
   - **control of bank accounts, that is, adequate segregation of duties, and that staff members check invoices for accuracy and completeness and leave evidence of their check (South East);**
   - **control of payroll (i.e., time sheets are signed to verify hours worked) (South East); and**
   - **access to computer systems and data is authorized (South East).**

Operating agreements need improvement

The Lloydminster Health District needs to have an adequate operating agreement with East Central Regional Health Authority 7 (ECRHA 7) to ensure that responsibilities and expectations are clearly understood.

The District provides health services to the Lloydminster Health District area. The District received $9.7 million from the Alberta Ministry of Health, during the year, to provide these services. The services include operating the Dr. Cooke Extended Care Centre on behalf of ECRHA 7 (Province of Alberta) since April 1, 1995.

In July 1998, the Minister of Health for Alberta and the Minister of Health for Saskatchewan signed a Memorandum of Understanding. Later, ECRHA 7 and the District signed The Bi-Provincial Lloydminster Health

Services Agreement (Agreement). The Agreement sets out general principles. However, the agreement does not adequately:

- describe the authority and responsibility of the District;
- describe the financial, operational, and compliance objectives needed to manage the delivery of health care successfully;
- describe services and activities the District is to provide to achieve the District's and ECRHA 7's objectives; and
- describe the basis of funding ECRHA 7 will provide to the District.

4. **We recommend that the Lloydminster District Health Board improve its operating agreement with East Central Regional Health Authority 7.**

Complying with the law

The boards of directors need to ensure management has established adequate rules and procedures to comply with the law including key agreements.

We note two areas where districts did not have adequate rules and procedures to ensure compliance with the law.

Performance reporting requirements

All nine districts that we examined need to continue to improve the information they submit to the Minister and the public to fully comply with *The Health Districts Act* (Act).

Section 35(2) of the Act requires districts to report annually to the Minister on the health status of their residents, and the effectiveness of their programs.

The Department of Health and the districts have prepared a framework to guide districts in measuring and reporting the health status of residents and the effectiveness of district programs. In addition, the Department has issued guidelines for the preparation of health district annual reports, guidelines for the preparation of three-year strategic plans for districts, and guidelines for performance measures for mothers and infants. These guidelines should help the District to meet the reporting requirements of section 35(2) of the Act.

Although the information that each district examined provides to the Minister and the public has improved, the information does not fully meet the requirements of the Act. To report fully on the health status of residents and the effectiveness of programs, each district needs to set performance targets and measures. Once they set performance targets and measures, each district will need to design information and reporting systems that enable comparisons of actual results to targets.

As we noted earlier, all of the districts examined also need to improve their internal reports. These internal reports would provide a sound basis for the preparation of the external reports to the Minister and the public required by the Act.

We reported this matter in previous reports to the Legislative Assembly. In January 1999, PAC agreed with our recommendation for improvement.

We continue to recommend that health districts continue to work with the Department to ensure that they can provide the Minister and the public with the full range of information required by *The Health Districts Act*.

Other requirements

Two of the nine districts that we examined (Lloydminster and Twin Rivers) need to improve their compliance with the laws as described in our following recommendations.

We reported this matter in a previous report to the Legislative Assembly. In 1996, PAC agreed with our recommendation that the health districts receive the Minister's approval for borrowing money.

5. **We continue to recommend that health districts receive approval of the Minister for borrowing money in excess of the limits provided by *The Health Districts Act* (Twin Rivers).**

6. **We recommend that health districts charge rates to special-care home clients in accordance with *The Housing and Special-care Homes Act* (Lloydminster).**

Improper use of assets

During the audit of Living Sky District Health Board, management told us that an employee misused the District's assets. As required by *The Provincial Auditor Act*, we notified the Ministers of Health and Finance of this matter.

An employee used a District vehicle for personal activities and made purchases of computer equipment for personal use totalling $28,198.

The District detected this misuse of assets, ended the person's employment, notified the police, and recovered the District's assets.

Payee lists

One of the nine districts that we examined (South East) did not publicly report a list of persons who received money from the district and the amounts those persons received. It is usual practice for publicly funded organizations to publish a list of persons who received public money and the amounts.

In 1996, PAC recommended that the Department consult with districts on the preparation of lists of payees, and recommended that the Government report the results of the consultation to the Standing Committee on Public Accounts. The Department has consulted with districts on this matter and most districts now provide this information publicly.

7. **We continue to recommend that the health districts (South East) publicly report a list of persons who received money from them and the amounts.**

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Capital equipment plans of health districts

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Background

This chapter examines the capital equipment plans of health districts. Health districts are responsible for delivering health care within the province. To carry out their role, health districts need capital equipment such as x-ray and dialysis machines, laboratory equipment and beds.

Saskatchewan's health districts managed over $130 million of capital equipment at March 31, 2001. The Department of Health estimates that health districts spend $30 million annually on new capital equipment (compared to about $40 million annually on facilities). Health districts that serve residents from nearby districts (regional service delivery centres) or from the whole province (provincial service delivery centres) have extensive capital equipment requirements.

Scarce funds, rapid changes in technology, and ageing equipment make it important for districts to consider carefully the services they provide and the equipment they require to support those services. If health districts do not adequately manage their capital equipment, they risk not being able to deliver health services efficiently and effectively.

In particular, poorly managed equipment may reduce access to essential services. If capital equipment is not adequately maintained, it may not function safely. The use of obsolete or poorly maintained equipment may result in incorrect diagnosis or injury to patients. If health districts delay maintenance or postpone the replacement of capital equipment, they may achieve short-term savings, but they risk larger maintenance and replacement costs in future years. This may have a serious impact on future resource allocation decisions.

These risks may be reduced if adequate capital equipment plans are available and acted upon. Districts that have plans are in a better position to ensure that the required capital equipment is available and in good working order to provide health services. An adequate capital equipment plan would also help districts respond when new resources unexpectedly become available. For example, in 2000, the Federal Government agreed to provide an additional $33.3 million (over two years) to Saskatchewan for medical equipment.

Health district managers told us it is difficult to plan effectively for capital equipment. Many health districts have been in deficit positions in recent years. New external funds become available only intermittently (as with the Federal Government funds). Some districts want the Department of Health to help them set priorities through a capital equipment plan for the province.

Our audit

The objective of this audit is to determine whether the capital equipment plans of selected health districts adequately include the key elements of capital asset plans in the public sector. We examined capital equipment plans that were approved by chief executive officers or other senior managers, and were available for use in the selected health districts on March 31, 2001.

We examined two of the six health districts that are regional service delivery centres with extensive capital equipment requirements. We focused on the information senior managers need for decision-making. We expected to find some elements of capital equipment plans in district strategic plans or operational plans.

In carrying out the audit, we followed *The Standards for Assurance Engagements* established by The Canadian Institute of Chartered Accountants.

We first reported the audit criteria that we used for this audit in Chapter 1B of our 2001 Spring Report. These criteria identify key elements for capital asset plans, which includes capital equipment and facilities. Six Saskatchewan Government organizations[1] confirmed that the criteria are reasonable and appropriate expectations for capital asset plans in Saskatchewan. These public sector agencies emphasized the importance of planning at least 10 years ahead for major equipment, buildings, and other infrastructure.

Exhibit 1 outlines the key elements for capital equipment plans in the public sector.

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[1] Saskatchewan Departments of Health, Education, Highways, and Finance, Saskatchewan Property Management Corporation, and SaskEnergy Incorporated.

Exhibit 1

Criteria for capital equipment plans

Public sector capital equipment plans should include the following key elements:

1. **Capital equipment required to support strategic objectives and programs**
   - overview of strategic objectives that will impact capital equipment
   - summary of required capital equipment for next ten years in line with strategic direction
   - responsibility for capital equipment
2. **Gap between required and existing capital equipment**
   - summary of existing capital equipment
   - risks related to existing capital equipment
   - gap between existing capital equipment capacity and needs for ten years
3. **Strategies to manage capital equipment**
   - strategies to obtain capital equipment to meet program needs
   - strategies to operate capital equipment
   - strategies to maintain capital equipment
   - strategies to dispose of capital equipment no longer usable or required
4. **Justification of capital equipment strategies**
   - criteria used to select capital equipment strategies
   - outline of capital and non-capital alternatives to achieve strategic objectives
   - explanation of how capital equipment strategies minimize key risks
5. **Financial implications of capital equipment strategies**
   - estimated life-cycle costs for planned capital equipment over the next ten years
   - sources of money to carry out capital equipment strategies

Audit conclusion and recommendation

We examined the capital equipment plans of two health districts that are regional service delivery centres. We found that one district's capital equipment plan adequately included the key elements for capital equipment plans, except that the plan needed to better summarize capital equipment required to support the district's strategic objectives and programs. The other district's capital equipment plan did not adequately include the key elements.

1. **We recommend that all health districts prepare capital equipment plans that contain the key elements for capital equipment plans in the public sector.**

Findings by criteria

For each criterion, we set out our expectations (in italics) and our audit findings. We describe these findings to illustrate existing practices and to highlight challenges faced by districts.

Capital equipment required to support strategic objectives and programs

We expected that capital equipment plans should summarize the capital equipment required to support the district's strategic objectives and programs. The plan should also state who would own and be responsible for capital equipment (e.g., the district, affiliate agencies, or partners).

We found that neither of the two districts adequately summarized the capital equipment they required, given their strategic objectives and plans for program delivery. One district had a financial schedule that listed the cost of planned equipment acquisitions for a four-year period. The other district's plan included a compilation of requested equipment, with some items looking forward several years. Although this district had an affiliate with significant capital equipment, the district's plan did not outline ownership of, or responsibility for, capital equipment.

Gap between required and existing capital equipment

We expected that a capital equipment plan should describe the gap between the district's existing equipment and the equipment that the district needs to deliver its programs and achieve its objectives. The plan should identify categories of existing assets and describe their condition. The plan needs to outline the risks that the district faces with its existing equipment.

We found that the plans of both districts described the gap between existing and required equipment in the context of equipment they intended to purchase to meet their service needs. The plans described services that could not be delivered with existing equipment. The plans described some critical timing issues. Both districts planned three to five years ahead. Plans for major capital equipment that is essential for service delivery should look further ahead.

One district's plan adequately described the risks that related to the district's equipment. Those risks included interruption of services and reduced patient well-being. The plan also described risks in terms of standards to be met (e.g., Canadian Association of Radiologists). The other district's plan indicated only in a general way how equipment deficiencies impacted service. Neither district's plan described risks in terms of an inability to meet specific service delivery targets. Neither district's plan adequately described the condition of their existing equipment.

Strategies to manage capital equipment

We expected that a capital equipment plan should include various strategies to manage the equipment. These include strategies to operate, maintain, and dispose of equipment, as well as to acquire new equipment.

We found that the plans of both districts included strategies (e.g., timing, cost, and financing) for acquiring various types of equipment. The plans discussed the contribution of potential partners to help acquire equipment. One district's plan also described performance standards for the new equipment.

Only one district's plan included information about the other facets of managing equipment. This plan described staffing and training strategies for some operating equipment. It also noted structural changes that would be required to house equipment adequately. This plan outlined some strategies to maintain equipment, for example, through the use of a new computerized preventative maintenance program. Finally, the plan included strategies to dispose of some equipment.

Justification of capital equipment strategies

We expected that a capital equipment plan should describe the reasons for the district's decisions about equipment. By justifying equipment *strategies, the plan provides important information about what the district is expecting to achieve with the equipment. The plan should outline alternatives, including non-capital alternatives, for achieving its objectives. The plan should also explain how the selected strategies will minimize key risks.*

We found that both districts described their general expectations for capital equipment. For example, in one of the plans, the new equipment was expected to reduce maintenance costs and improve patient care. The plans linked what the districts expected of their equipment to their overall objectives.

One district described how its objectives could be met by using alternatives to new capital equipment acquisitions. For example, the district's plan discussed how a strategic alliance with another health district would help avoid some new spending on equipment. The other district's plan explained how the equipment strategy minimized risks. The plan noted how several specific risks could be reduced.

Financial implications of capital equipment strategies

We expected that a capital equipment plan should describe the financial implications of its strategies. The plan should include the estimated life-cycle costs for equipment over the long term—up to 10 years. It should identify how the district intends to finance its equipment strategies (e.g., reserves, loan, donations, and/or operating budget).

We found that one district's plan included start-up and annual operating costs for some items, in addition to acquisition costs. The plan also outlined the overall cost to replace capital equipment in the district. The other district's plan showed only acquisition costs for four years.

Both districts identified how they expected to finance their plan. For example, both districts depended on fundraising by foundations to assist with the purchase of capital equipment. However, both districts' plans focused only on acquisitions and did not describe sources of money for other facets of their equipment strategies. In many cases, other costs would be built into the districts' operating budget.

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Follow-up of needs-based resource allocation among health districts

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Introduction

This section describes our follow-up of action taken by the Department of Health on audit recommendations concerning needs-based resource allocation among health districts.

During 1997-98, we audited the Department's processes to allocate resources among health districts based on health needs. The audit was part of a series of audits related to health reform and the introduction in 1994-95 of a new funding formula described by the Department as a "needs-based funding formula".[1]

We limited the audit to the needs-based aspects of the Department's processes to allocate resources among health districts. We did not audit the influence of concerned citizens or cost-drivers like inflation on the Department's resource allocation processes. We reported our findings and conclusions in our 1999 Fall Report – Volume 2, Chapter 1E (p.93).

Recommendation 1 – Priorities and objectives for health

In 1999, we recommended that the Department develop processes that involve stakeholders and experts to identify and communicate:

- priority health needs for the province; and
- health status objectives for the long term (e.g., 10 years or more) for the highest priority provincial health needs.

The Standing Committee on Public Accounts considered this recommendation on June 6, 2001. The Standing Committee agreed and recommended: "that the Department continue to develop, as one component of resource allocation, processes that involve stakeholders and experts to identify and communicate priority health needs for the province, and health status objectives for the long term (e.g., 10 years or more) for the highest priority provincial health needs."

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[1] As described in *Introduction of needs-based allocation of resources to Saskatchewan district health boards for 1994-95,* Saskatchewan Health.

Priorities

The Department told us that it involves various stakeholders to help it identify priorities. Experts also contribute to this process.

During 1999 and 2000, the Department communicated its provincial priorities in its Guidelines for the Preparation of the Annual Health Budget Plan. In 2000, the priorities listed in the Guidelines referred to health needs (e.g., fetal alcohol effect, mental health, diabetes), as well as service delivery issues (e.g., service providers, equipment). In 2001, the Guidelines for 2001-2002 district budgets did not refer to health need priorities.

The Department's priorities vary from year to year. Consistent priorities would help the Department to set more specific objectives for improving health status over the long term.

Objectives

During 2000, the Department set objectives in its 2001-2005 Strategic Plan.[2] The Department's Plan includes two types of objectives—service delivery objectives and health status objectives. For example, an objective that relates to service delivery is "improved program effectiveness" or HOW things will be done. An objective that relates to health status or WHAT will be achieved is "improved health for children and youth". These objectives are general. More specific objectives would provide better direction for managers and service providers. However, this internal Strategic Plan is an important step forward.

The Government now endorses an accountability framework that requires departments to set specific objectives, and report progress toward achieving those objectives using performance measures. For 2002-03, the Government will require all departments to make public their objectives and performance measures.

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[2] The Department's Strategic Plan for 2001 -2005 is not public.

Recommendation 2 – Monitor and report achievement of objectives

In our 1999 report, we recommended that the Department monitor and report the impact of resource allocation on the achievement of provincial objectives for service delivery and for health status. The Standing Committee on Public Accounts agreed with this recommendation on June 6, 2001.

Monitor achievement of objectives

In 1999, the provincial and federal governments agreed to monitor and report on the achievement of outcome objectives.[3] The Department is working with health districts and national committees to identify ways to measure health outcomes. Agreement on these outcome measures will make it possible for specific health outcomes to be monitored and compared across the country.

With the signing of a Health Ministers Communiqué in 2000, the Department agreed to use these health outcome measures to report its health outcomes to the public by 2002.

Report achievement of objectives

The Department told us it communicates internally among its program managers to explain the districts' objectives and the resources to be allocated to each district. Senior managers and the Minister receive briefing notes on an ad hoc basis as required. The Department's senior managers do not receive regular reports about the Department's progress toward its provincial objectives. Without regular access to this information, the Department is less able to monitor and take action on the highest priority health needs to protect the health of Saskatchewan residents.

In 2000, the Department published information about the health status of the population:

- *Health Services and Outcome Indicators by Population Group: Overview*. This report describes the Department's plans for reporting in the future. It also describes the nature of the information the Department plans to collect and report.

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[3] *A Framework to Improve the Social Union for Canadians*, February 1999.

- *Health Services and Outcome Indicators by Population Group: Mothers and Infants.* This is the Department's first public report of health status outcomes. It describes health status outcomes for mothers and infants based on commonly used measures (e.g., infant mortality).

This *Mothers and Infants* report will help readers to analyze the relative health status of Saskatchewan's population compared to that of other similar provinces or the country as a whole. The report is an important step toward reporting on the achievement of provincial objectives.

The *Mothers and Infants* report does not yet show the link to what the Department planned to accomplish. At present, the report can not be used to assess whether resource allocation among the districts is helping to achieve provincial objectives.

Summary

We recognize that the recommendations we made in 1999 cannot be achieved quickly.

We note that the Department's processes are evolving in ways that will increase their capacity to set direction using specific objectives for health status as well as for service delivery. The Department also increased its capacity to monitor and report on the achievement of its objectives. In particular, the Department worked with others to select and use performance measures that will help it to monitor progress.

We will continue to watch how the Department identifies priority health needs, sets specific objectives, and monitors their achievement. We also will continue to watch how the Department analyzes whether its resource allocation among health districts helps to address the highest priority health needs and to achieve provincial health objectives.

Liquor and Gaming Authority and Saskatchewan Indian Gaming Authority Inc.

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Liquor and Gaming Authority

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Executive summary

This chapter describes the results of our audit of Saskatchewan Liquor and Gaming Authority (Liquor and Gaming) for the year ended March 31, 2001. The chapter also describes progress Liquor and Gaming has made to address recommendations we made in our 1999 Spring Report and 2000 Fall Report – Volume 2.

For the year ended March 31, 2001, Liquor and Gaming's financial statements are reliable. Liquor and Gaming needs to continue to strengthen its rules and procedures to safeguard and control public money. Liquor and Gaming complied with authorities governing its activities except for the registration of gaming suppliers.

Liquor and Gaming has made significant progress in improving the management of public money under control of Saskatchewan Indian Gaming Authority Inc. (SIGA). Liquor and Gaming is working with SIGA to implement our recommendations. SIGA now has a new Board of Directors and has established appropriate governance practices. SIGA has also hired a permanent Chief Executive Officer, and a person to provide internal audit services. However, Liquor and Gaming needs to continue to carefully monitor SIGA's management practices. While much has been done to improve management practices at SIGA, much remains to be done. We recognize that it will take time to make all the necessary improvements.

Introduction

The Saskatchewan Liquor and Gaming Authority (Liquor and Gaming) operates under *The Alcohol and Gaming Regulation Act*. The mandate of Liquor and Gaming is to support, develop, and regulate the Saskatchewan liquor and gaming industries. Also, the mandate requires Liquor and Gaming to maximize public benefit through high quality services and products.

Liquor and Gaming operates retail liquor stores and video lottery terminals, and owns and operates the slot machines at Saskatchewan Indian Gaming Authority's (SIGA) casinos. SIGA's slot machine revenues and expenses are included in Liquor and Gaming's financial statements. In 2000-01, Liquor and Gaming had revenues of $633 million and net income of $319 million. At March 31, 2001, Liquor and Gaming held net assets of $1million. Liquor and Gaming's financial statements are included in its Annual Report.

Our audit conclusions and findings

In our opinion, for the year ended March 31, 2001:

- **Liquor and Gaming's financial statements are reliable;**
- **Liquor and Gaming had adequate rules and procedures to safeguard and control its assets, except for the matters described in this chapter; and**
- **Liquor and Gaming complied with the authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing, except for the matter described in this chapter.**

In this chapter, we also report our assessment of Liquor and Gaming's 2000 Annual Report.

Liquor and Gaming needs to manage public money under SIGA's control

Liquor and Gaming needs to continue to strengthen its rules and procedures to manage public money under SIGA's control.

On February 10, 1995, the Government of Saskatchewan and the Federation of Saskatchewan Indian Nations (FSIN) made an agreement, commonly known as the Framework Agreement, that permitted the development and operation of casinos in Saskatchewan within the parameters of *The Criminal Code of Canada*. To implement the Framework Agreement and because under *The Criminal Code of Canada* only provinces have the authority to conduct and manage electronic gaming devices, Liquor and Gaming and SIGA signed the Casino Operating Agreement on November 24, 1995.

The Casino Operating Agreement permits SIGA to manage slot machines at SIGA's four casinos. Under the Agreement, the revenue and expenses related to the slot machines (electronic gaming device) belong to Liquor and Gaming. The Agreement also addresses the management of table games. SIGA has the right to deduct reasonable table games losses from the net profits from the slot machines.

Also, under the Agreement, Liquor and Gaming has the right to determine what expenses SIGA can reasonably incur and deduct from slot machine revenues, to decide SIGA's operating policies, and to approve SIGA's financial plans. These authorities are necessary because the expenses SIGA incurs to operate slot machines are Liquor and Gaming's expenses.

In our 2000 Fall Report – Volume 2, we made recommendations for Liquor and Gaming to strengthen management of public money under SIGA's control. We recommended and continue to recommend:

1. **Liquor and Gaming determine what SIGA payments to date are not reasonable deductions from public money and recover that money as provided by the agreements;**
2. **Liquor and Gaming should:**
    - **ensure SIGA implements the recommendations we make in our 2000 Fall Report; and**
    - **ensure it has necessary resources to frequently audit SIGA;**
3. **Liquor and Gaming should frequently audit SIGA's operations to ensure:**

- **SIGA complies with the Framework and Casino Operating Agreements; and**
- **SIGA incurs and deducts only reasonable expenses from public money;**

4. **Liquor and Gaming should recover any expenses that are not reasonable; and**
5. **Liquor and Gaming should make public a list of persons who received public money from SIGA following the Standing Committee on Public Accounts' recommendations.**

In our 2000 Fall Report – Volume 2, we also said Liquor and Gaming needs to do more work to fully implement the recommendations we made in our 1999 Spring Report (Exhibit 1).

Exhibit 1

In our 1999 Spring Report, we recommended and continue to recommend Liquor and Gaming should:

6. **prepare a formal training plan for its employees and should co-ordinate work among its branches;**
7. **work with SIGA to establish appropriate governance and conflict of interest policies for SIGA casinos;**
8. **ensure inspection/audits are completed as planned or document why the plan was changed;**
9. **document procedures for reporting and following up its audit/inspection findings with SIGA;**
10. **receive and formally approve SIGA's casino operating policies and procedures on a timely basis;**
11. **work with SIGA to establish an internal audit function at SIGA;**
12. **receive SIGA's external auditor's report on the adequacy of SIGA's internal controls within 90 days of SIGA's year end and follow up on any matters reported in that report;**
13. **receive and approve SIGA's budget on a timely basis and should have procedures for approving changes to the budget.**

Liquor and Gaming started to implement our recommendations. To ensure the effective implementation of our recommendations, Liquor and Gaming set and communicated the following priorities to SIGA.

- Acceptance and implementation of a new SIGA board structure mandated by Liquor and Gaming.
- Training and orientation of SIGA board members.
- Acceptance and implementation of new policies and procedures mandated by Liquor and Gaming.
- Acceptance and implementation of the audit and finance committee of the SIGA board.

- Appointment of an external provider for the internal audit function.
- Acceptance of the Provincial Auditor as SIGA's auditor.
- Monthly meetings between SIGA's board and Liquor and Gaming.
- Liquor and Gaming participation in the selection of a permanent Chief Executive Officer and Chief Financial Officer.

Liquor and Gaming and SIGA have made significant progress toward achieving those priorities except for the new policies and procedures for SIGA.

On January 12, 2001, SIGA's membership appointed the Provincial Auditor as the auditor of SIGA. In February 2001, SIGA's Board of Directors was recomposed. The Board now includes three members nominated by Liquor and Gaming and four members nominated by SIGA's membership. Recently, SIGA has also appointed a new Chief Executive Officer. SIGA has not yet hired a new Chief Financial Officer. Because SIGA has not yet hired a new Chief Financial Officer, relevant policies and procedures have either not yet been established or not yet fully implemented.

While Liquor and Gaming has made significant progress in improving the management of public money under SIGA's control, more work is necessary. In our 1999 Spring Report and 2000 Fall Report – Volume 2, we made several recommendations for Liquor and Gaming to improve its management of public money under SIGA's control. Liquor and Gaming should set out a detailed plan that will ensure the full implementation of our recommendations. Such a plan should include a timeline showing when the required policies and procedures will be established and fully implemented. We recognize it will take more time and resources to improve the management practices at SIGA.

We summarize below the progress Liquor and Gaming has made in addressing our recommendations to strengthen management of public money under SIGA's control and other matters.

Audit and inspection services

Liquor and Gaming continues to improve training plans for its audit and inspection staff. Currently, Liquor and Gaming is assessing the work of its audit and inspections branches to ensure better co-ordination among its employees. The assessment will address formal yearly audit plans, the process for documenting departures from approved audit plans, and timely follow up of audit and inspection findings with SIGA.

During the year, the audit and inspection branches directed their efforts towards ensuring that SIGA was moving toward the priorities that Liquor and Gaming had established.

Governance and conflict of interest policies

Liquor and Gaming worked with SIGA to ensure SIGA has appropriate governance and conflict of interest policies. SIGA has established those policies. Next year, we will assess SIGA's compliance with those policies.

Internal audit function at SIGA

Liquor and Gaming worked with SIGA to establish an internal audit function at SIGA. SIGA has hired a person to provide internal audit services. The internal auditor is currently planning audit work for next year.

Receiving and approving SIGA's budget

Liquor and Gaming has provided guidelines for preparing and receiving SIGA's budget. We think those guidelines are appropriate. SIGA did not comply with those guidelines for preparing its 2000 – 2001 budget. In December 2000, Liquor and Gaming received and approved SIGA's 2000 – 2001 budget.

We think Liquor and Gaming needs to do more to ensure SIGA prepares an appropriate business and financial plan and to establish procedures for approving changes to the financial plans.

Recovery of unreasonable expenses

In our 2000 Fall Report – Volume 2, we recommended Liquor and Gaming should determine what SIGA expenses to date were not reasonable and recover that money as provided by the Agreement dated December 1, 1995 between the Government and the Federation of Saskatchewan Indian Nations. The Agreement provides that Government can recover unreasonable expenses incurred by SIGA by deducting money from future payments due to the First Nations Fund.

The Government retains a portion of profits from SIGA's casinos and distributes the remainder between the First Nations Fund and the Community Development Fund (previously called Associated Entities Fund). When SIGA deducts unreasonable expenses from slot machine revenues, it reduces profits available for the Government and for others receiving a share of SIGA's profits.

In March 2001, Liquor and Gaming determined that $2.3 million of SIGA's expenses for the period from November 1997 to June 2000 were not reasonable. On March 12, 2001, Liquor and Gaming informed SIGA about the final calculations of SIGA's unreasonable expenses. Under the profit sharing arrangements set out in the Framework Agreement, the Government is entitled to recover $1.36 million of the $2.3 million of unreasonable expenses.

The Government plans to recover the $1.36 million from future payments due to the First Nations over the next two years.

Liquor and Gaming's audit services

In our 2000 Fall Report – Volume 2, we recommended that Liquor and Gaming should ensure it has the necessary resources to frequently audit SIGA's operations.

Liquor and Gaming continues to improve the capacity of its audit services division. During the year, the audit services division directed its efforts towards ensuring that SIGA was moving towards the priorities that Liquor and Gaming had established.

Public Accountability

In our 2000 Fall Report – Volume 2, we also recommended that Liquor and Gaming should make public a list of persons who received public money from SIGA following the Standing Committee on Public Accounts' recommendations. We made this recommendation because the revenues and the expenses of the slot machines belong to Liquor and Gaming.

Neither SIGA nor Liquor and Gaming has made public a list of persons who received public money from SIGA. Liquor and Gaming told us that it could not make the list public because of the advice it received from the Department of Justice. Liquor and Gaming also told us that a list of persons who received money from SIGA will be made public upon the completion of the police investigations currently underway.

Current contingency plan needed

The Liquor and Gaming and its contractors need written and tested contingency plans to ensure continuous operations if computer processing is interrupted.

We reported this matter in our 1999 Fall Report - Volume 2 and previous reports. The Standing Committee on Public Accounts (PAC) considered this matter in January 1999 and concurred with our recommendation.

We continue to recommend that the Liquor and Gaming should update its written contingency plan and test the plan.

Management told us that they are continuing to develop contingency plans for computer processing and information system activities.

Documented rules and procedures for computer system operations needed

Liquor and Gaming needs to fully document its rules and procedures for its computer system operations including security and to ensure the staff understand the rules and procedures.

We reported this matter in our 1999 Fall Report - Volume 2 and previous reports. PAC considered this matter in January 1999 and concurred with our recommendation.

We continue to recommend Liquor and Gaming should fully document its rules and procedures for its computer systems operations and to ensure that the staff understand those rules and procedures.

Management told us that Liquor and Gaming continues to improve and refine its computer operating rules and procedures.

Registration of gaming suppliers

Liquor and Gaming did not register all gaming suppliers as required by *The Alcohol and Gaming Regulation Act* (Act).

Liquor and Gaming issues licenses to gaming establishments. Under the Act, gaming establishment means any premises in which a lottery scheme is licensed to operate. The terms and conditions of those licenses require the licensees to ensure all their employees and those who provide gaming services hold a certificate of registration (license) from Liquor and Gaming. Liquor and Gaming currently licenses all employees who work in gaming establishments.

The Act requires that all gaming suppliers to the licensed gaming establishments (gaming operators) must hold a valid certificate of registration (license) from Liquor and Gaming. Such a license provides assurance to the gaming operators that Liquor and Gaming is satisfied about the character and capability of the gaming suppliers.

The Act requires that those who lease premises to gaming operators and who have an interest in the management of gaming operations must hold a certificate of registration (license) from Liquor and Gaming. The Act also requires that gaming suppliers who provide promotional, financial or management services must hold a certificate of registration (license) from Liquor and Gaming.

Liquor and Gaming, however, did not have rules and procedures to ensure that all gaming operators deal only with licensed suppliers.

Liquor and Gaming did not provide adequate guidelines to gaming operators for the registration of all gaming suppliers. Liquor and Gaming defines gaming suppliers as only those who provide supplies directly related to gaming devices.

Liquor and Gaming did not register all suppliers providing premises to gaming operators and who have an interest in the management of gaming operations. Nor did Liquor and Gaming register all those suppliers providing promotional, financial or management services to gaming operators.

Although, the gaming operators must ensure that all their gaming suppliers hold licenses as required by law, Liquor and Gaming is responsible to ensure all gaming operators comply with the law. To do so, Liquor and Gaming must have a registry of licensed gaming suppliers in the Province.

We also reported this matter in our 2000 Fall Report – Volume 2.

14. **We continue to recommend that Liquor and Gaming establish rules and procedures to register all gaming suppliers as required by *The Alcohol and Gaming Regulation Act.***

In April 2001, Liquor and Gaming began drafting guidelines for registration of gaming suppliers. Liquor and Gaming distributed those guidelines to gaming operators. Also, Liquor and Gaming required gaming operators to send a list of gaming suppliers that require registration. Liquor and Gaming has begun reviewing the lists of suppliers provided by the gaming operators.

Annual Report needs improvement

The Tabling of Documents Act, 1991 requires Liquor and Gaming to give its 2000 Annual Report, including its financial statements, to the Assembly by October 27, 2000. Liquor and Gaming gave its Annual Report including its financial statements on June 27, 2001. Accordingly, Liquor and Gaming has not complied with *The Tabling of Documents Act, 1991*.

Liquor and Gaming's Annual Report has improved over the last few years. However, the Annual Report needs further improvement to make it a better report on Liquor and Gaming's performance.

To assess the performance of a public sector agency, Members of the Legislative Assembly and the public need to know how the agency is managing its key risks. They also need information about the agency's goals and objectives and how successful the agency has been in achieving those goals and objectives. Good annual reports provide this information. To be good accountability documents, annual reports should describe what the public agency is all about, how it manages its key risks, what it has done, where it is now, and what it plans to do. In addition, to ensuring that the information in the report is relevant and understandable, the annual report should be written clearly and be available promptly after the agency's year end.

Liquor and Gaming's 2000 Annual Report provides limited information on how Liquor and Gaming measures its performance. Future reports should include a summary of its key performance indicators and targets compared to actual results. A discussion and analysis of Liquor and Gaming's plans and the actual results would help readers assess Liquor and Gaming's performance in achieving its goals. Liquor and Gaming's 2000 Annual Report does not provide the intentions or outlook of Liquor and Gaming. Future reports should include a discussion of Liquor and Gaming's future directions. Such a discussion would help readers to understand how Liquor and Gaming intends to achieve its goals. Liquor and Gaming's 2000 Annual Report does not explain the key risks that Liquor and Gaming needs to manage well to be successful. Future reports should describe the key risks Liquor and Gaming faces and how it manages those risks. We think this information will help readers better understand and assess Liquor and Gaming's performance.

Liquor and Gaming's 2000 Annual Report is written clearly.

We also reported this matter in our 1999 Fall Report – Volume 2.

15. **We continue to recommend that Liquor and Gaming should continue to improve its annual report.**

16. **We recommend that Liquor and Gaming should provide its Annual Report to the Legislative Assembly by the date required by law.**

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Saskatchewan Indian Gaming Authority Inc.

7B

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Executive summary

This chapter includes the results of our audit of Saskatchewan Indian Gaming Authority Inc. (SIGA) for the year ended March 31, 2001. This chapter also describes progress SIGA has made from April 2001 to August 2001 to address matters reported in our 2000 Fall Report – Volume 2.

For the year ended March 31, 2001, SIGA's financial statements are reliable, SIGA did not have adequate rules and procedures to safeguard and control its assets, and SIGA complied with authorities governing its operations, except for the matters reported in this chapter. Because we released our 2000 Fall Report – Volume 2 in November 2000, SIGA did not have enough time to fully address our recommendations by March 31, 2001. Accordingly, deficiencies in SIGA's rules and procedures that we reported in our 2000 Fall Report – Volume 2 continued for the year ended March 31, 2001.

Legislators and the public need to know if SIGA is making progress in improving their practices. Therefore, we did work in August 2001 to assess the progress that SIGA has made in addressing our recommendations.

SIGA has recomposed its Board of Directors. Now that SIGA's governance structure is complete, we expect SIGA's Board to develop a strategic plan including goals and objectives for SIGA. SIGA has hired a permanent Chief Executive Officer, but SIGA has not yet hired a permanent Chief Financial Officer. Once the Chief Financial Officer is hired, we expect management to set out a detailed plan to establish appropriate policies and procedures, and to implement those policies and procedures. We recognize that the revision and implementation of its policies and procedures will take time and resources. We will report a full assessment in our 2002 Fall Report.

Introduction

The Saskatchewan Indian Gaming Authority Inc. (SIGA) is a non-profit corporation established under *The Non-Profit Corporations Act, 1995*. The members of SIGA are the Federation of Saskatchewan Indian Nations (FSIN) and its Tribal Councils. SIGA is licensed by the Saskatchewan Liquor and Gaming Authority (Liquor and Gaming) to conduct and manage table games. The Casino Operating Agreement requires SIGA to use the net proceeds from the operations of licensed table games for First Nations' charitable or religious purposes.

Liquor and Gaming owns and manages the slot machines located in the SIGA casinos, as required by section 207 of *The Criminal Code of Canada*. The revenue from the slot machines belongs to Liquor and Gaming and is, therefore, public money. The Casino Operating Agreement allows SIGA to deduct reasonable costs of operating the casinos, as determined by Liquor and Gaming, from the slot machine revenues. SIGA is required to remit the net profits from the slot machines to Liquor and Gaming.

As directed by Liquor and Gaming, on January 12, 2001, SIGA's membership appointed the Provincial Auditor as SIGA's auditor.

Background

On February 10, 1995, the Government of Saskatchewan and the FSIN made an agreement called the Framework Agreement that permitted the development and operation of casinos in Saskatchewan within the parameters of *The Criminal Code of Canada*. The Framework Agreement expired on December 31, 2000. On January 1, 2001, the Government of Saskatchewan extended the Framework Agreement to July 31, 2001 with a provision for a further 90 day period or periods if SIGA continues to meet the terms and conditions Liquor and Gaming attached to SIGA's casino licenses on November 15, 2000.

To implement the Framework Agreement, Liquor and Gaming and SIGA signed the Casino Operating Agreement on November 24, 1995. The Casino Operating Agreement expired on March 31, 2001. In March 2001, Liquor and Gaming extended the Casino Operating Agreement to July 31, 2001 with the provision that the Casino Operating Agreement expires on the expiry of Framework Agreement.

To ensure the reasonability of costs for operating the slot machines for Liquor and Gaming, the Casino Operating Agreement requires Liquor and Gaming to approve SIGA's casino operating policies and directives and its operating budgets.

The net profits from the slot machine operations in the SIGA casinos flow to the Government's General Revenue Fund (GRF) through Liquor and Gaming. The Government distributes a portion of those profits to the First Nations Fund and the Community Initiatives Fund as required by *The Saskatchewan Gaming Corporation Act* and the Framework Agreement.

SIGA reported the following net profits (losses) for each segment of its operations over the last four years.

Table 1

Segment	2001	2000	1999	1998
	(in 000's)			
Table operations	$ (638)	$ (491)	$ (927)	$ (451)
Slot operations	21,290	15,705	19,216	21,023
Ancillary operations	(2,009)	(1,830)	(1,270)	(238)
Total	$ 18,643	$ 13,384	$ 17,019	$ 20,334

Our 2000 Fall Report – Volume 2 raised a number of concerns about how SIGA was using public money. In June 2000, we became aware of the improper use of public money by the Chief Executive Officer of SIGA and the inappropriate action of the Board of Directors regarding this matter. As a result, we decided to audit SIGA directly.

Board minutes for period from April 1997 to March 2000

In our 2000 Fall Report – Volume 2, we stated that we did not have access to SIGA's Board minutes for the period from April 1997 to March 2000. We needed the minutes to determine whether SIGA had adequate rules and procedures to safeguard and control public money, and to comply with authorities. Also, we needed the minutes to assess the Board's governance practices.

We did not pursue this matter further because we think our resources are better spent in examining SIGA's new governance practices. We have had full access to SIGA's Board minutes since April 1, 2000.

Structure of the chapter

In November 2000, we published our 2000 Fall Report – Volume 2. In that Report, we provided our conclusions and findings regarding SIGA's management of public money and made 15 recommendations to strengthen SIGA's rules and procedures to safeguard public money. Liquor and Gaming and SIGA both stated that they accepted our recommendations and began to implement our recommendations. However, Liquor and Gaming and SIGA did not have enough time to fully implement our recommendations during the period from December 2000 to March 2001. Accordingly, the recommendations we made in our 2000 Fall Report – Volume 2 were not fully addressed during the year ended March 31, 2001. Legislators and the public need to know whether SIGA is making progress in improving its practices. Therefore, we did further work in August 2001 to assess the progress SIGA made in addressing our recommendations.

In Part 1 of this chapter, we describe our audit conclusions and findings on SIGA's accounts for the year ended March 31, 2001.

In Part 2, we describe the results of the follow-up work we did in August 2001. This section describes SIGA's progress to implement the recommendations we made in our in our 2000 Fall Report – Volume 2.

Part 1

Our audit conclusions and findings

In our opinion, for the year ended March 31, 2001:

- **SIGA's consolidated financial statements are reliable;**
- **SIGA did not have adequate rules and procedures to safeguard and control its assets because of the matters reported in this chapter; and**

- **SIGA complied with authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing, except for the matters reported in this chapter.**

As we stated earlier, although SIGA had begun work to address the recommendations we made in our 2000 Fall Report – Volume 2, it did not have enough time to fully address our recommendations during the year ended March 31, 2001. Accordingly, the recommendations in our 2000 Fall Report – Volume 2 (see Exhibit 1 on page 181) continue for 2001.

In addition to the recommendations we made in our 2000 Fall Report – Volume 2, we identified new areas where SIGA needs to improve its systems and practices. The remainder of Part 1 discusses those new areas.

SIGA's Board needs timely and appropriate internal financial reports

In our 2000 Fall Report – Volume 2, we stated that we did not know what operational and financial information management provided to the Board because we were not given access to the Board of Directors' minutes. We have now examined the information package that management provides to the Board. The package does not include sufficient performance information. Management provides only periodic financial reports to the Board. To assess SIGA's performance, the Board also needs regular operational reports from management. Operational reports would show what the Board wanted SIGA to achieve and how SIGA is progressing towards those expectations.

Also, the periodic financial reports provided to the Board are not adequate because those financial reports are not prepared in accordance with generally accepted accounting principles. The reports do not include a balance sheet, a combined statement of operations, or cash flow information. Also, the reports were not timely. For example, SIGA completed its financial reports for September 2000 on December 4, 2000.

We expect the Board to determine and communicate to management the operational and financial information the Board needs to manage the affairs of SIGA. Management should regularly provide that information to the Board on a timely basis together with explanations of significant differences between the planned and actual results.

1. **We recommend that SIGA's Board define its operational and financial information needs and communicate those needs to management for regular reporting.**

On November 6, 2001, the Board's Audit Committee informed us that the Board continues to work on improving SIGA's operational and financial reports.

SIGA needs to restrict access to its financial systems

SIGA needs to establish rules and procedures to ensure that only authorized persons have access to its automated financial systems.

SIGA uses an automated system to process transactions and to maintain its financial records. To ensure its accounting records are complete and accurate at all times, SIGA must limit access to its systems to authorized staff. By limiting access to its systems, SIGA can ensure that only authorized employees can process transactions.

Currently, SIGA's automated financial systems are not fully password protected to limit access to those systems. Accordingly, unauthorized persons can make changes to the systems to conceal frauds and errors.

2. **We recommend that SIGA establish rules and procedures to ensure that only authorized persons can access its financial systems.**

On November 6, 2001, the Board's Audit Committee told us that SIGA continues to make progress in restricting access to its financial systems.

Adequate segregation of duties needed

SIGA needs to ensure an adequate segregation of duties for its employees. Segregation of duties is not adequate when an employee or group of employees is in a position to both perpetrate and conceal the improper use of money in the normal course of their duties.

Currently, certain employees have access to blank cheques. The same employees are authorized to transfer money from SIGA's bank accounts and can make changes to financial records without independent review and approval. When incompatible duties are not segregated, the risk of improper use of money increases.

SIGA discovered that an employee made improper payments totalling approximately $30,000 to an individual. The employee used previously approved and paid invoices from suppliers to prepare cheques payable to another individual and altered SIGA's records to conceal these payments. SIGA did not receive any goods or services for these payments. SIGA ended the person's employment and reported this matter to the police for further investigation.

We also noted that other employees who had authority to order goods and services could also receive the goods and services ordered and approve the invoices for payment. These incompatible functions also need to be segregated to reduce the risk of improper use of money.

3. **We recommend that SIGA properly segregate the duties of its employees.**

Management told us SIGA continues to make changes to reduce the risk of improper use of money.

SIGA needs to comply with the Agreements

SIGA needs to comply with the Casino Operating Agreement.

As stated earlier, to implement the Framework Agreement, Liquor and Gaming and SIGA signed the Casino Operating Agreement. The Casino Operating Agreement places restrictions on the activities of SIGA. The Agreement restricts SIGA's activities to the development and operation of casinos developed under the Framework Agreement. Neither the Framework Agreement nor the Casino Operating Agreement allows SIGA to engage in the development and operation of casinos in other provinces.

SIGA hired consultants to work with Manitoba First Nations in establishing casinos in that province and to explore opportunities for SIGA to manage these casinos. These consultants also advised SIGA on a proposal for a casino in Moose Jaw. During the year, SIGA paid these consultants approximately $163,000 for their work. Liquor and Gaming estimated approximately half of the total amount paid was for the consultants' work related to the casinos in Manitoba and made arrangements to recover that money from SIGA. We cannot, however, determine how much of the total amount paid to the consultants relates to their work related to the casinos in Manitoba. SIGA is not allowed to engage in activities related to casinos in other provinces. Accordingly, SIGA did not comply with the Casino Operating Agreement. Also, the payments to consultants, for their work related to casinos in Manitoba, were not properly authorized.

SIGA ended the contracts with these consultants in November, 2000. On March 2, 2001, the Board of Directors approved a policy for tendering and awarding of contracts. SIGA must now establish rules and procedures to ensure compliance with the policy.

4. **We recommend that SIGA establish rules and procedures to ensure compliance with the Casino Operating Agreement.**

Exhibit 1

In our 2000 Fall Report – Volume 2, we recommended:

5. **SIGA should establish a proper code of conduct and that code of conduct should be appropriate for managing public money.**
6. **SIGA should document and communicate to its senior management the goals and objectives of SIGA.**
7. **SIGA's Board should establish an appropriate conflict of interest policy for Board members and management.**
8. **SIGA's Board should ensure all Board members and senior management comply with the established conflict of interest policy.**
9. **SIGA should prepare a complete business and financial plan for its operations.**
10. **SIGA's Board should define its management reporting needs and communicate those needs to management for regular reporting.**
11. **SIGA should establish an independent internal audit function that should report directly to the Board.**
12. **SIGA should report publicly through FSIN and Liquor and Gaming setting out SIGA's planned results and actual results.**
13. **SIGA should make public through FSIN and Liquor and Gaming a list of persons (e.g., employees, suppliers) who have received money from SIGA and the amount each person received.**

14. **SIGA's Board should establish appropriate delegation of authority rules for the management.**
15. **SIGA should establish written policies for management and staff pay, benefits, professional development, and performance evaluation.**
16. **SIGA should establish an appropriate travel policy for Board members and executive management expenses including spousal travel, business expenses, and travel advances.**
17. **SIGA should establish adequate policies and procedures to ensure its books and records reflect its business operations and there is support for all transactions.**
18. **SIGA should establish appropriate written policies and procedures for tendering and awarding contracts.**
19. **SIGA should establish appropriate policies and procedures for its marketing, promotion, and sponsorship activities. Those policies and procedures should include a clear definition of marketing and promotion activities and an approval process for sponsoring community events.**

Part 2

Status of previous recommendations

As we stated earlier, because of the timing of our 2000 Fall Report – Volume 2, SIGA did not have enough time to fully address our recommendations. To ensure an orderly implementation of our recommendations, Liquor and Gaming set and communicated the following priorities to SIGA:

- Acceptance and implementation of a new SIGA board structure mandated by Liquor and Gaming.
- Training and orientation of SIGA board members.
- Acceptance and implementation of new policies and procedures mandated by Liquor and Gaming.
- Acceptance and implementation of the audit and finance committee of the SIGA board.
- Appointment of an external provider for the internal audit function.
- Acceptance of the Provincial Auditor as SIGA's auditor.
- Monthly meetings between SIGA's board and Liquor and Gaming.
- Liquor and Gaming participation in the selection of a permanent Chief Executive Officer and Chief Financial Officer.

SIGA has made significant progress toward achieving the priorities set by Liquor and Gaming. In February 2001, SIGA's Board was recomposed. The Board now includes three members nominated by Liquor and Gaming and four nominated by SIGA's membership. As we stated earlier, SIGA's membership, in a meeting on January 12, 2001, appointed the Provincial Auditor as the auditor of SIGA. Recently, SIGA has also appointed a permanent Chief Executive Officer. Because SIGA has not yet hired a permanent Chief Financial Officer, relevant financial and operational processes have either not yet been established or are not yet fully implemented.

SIGA's governance structure is now complete. The next step is to hire a Chief Financial Officer. Once this is done, we look forward to receiving a detailed plan for the full implementation of the recommendations we made in our 2000 Fall Report – Volume 2. Such a plan should include a timeline showing when all financial and operating policies and procedures will be revised and implemented. The detailed plan should also include a human resource plan. New policies and procedures often necessitate revisions to human resource practices (e.g., staff training, job classification). For the proper implementation of its revised policies, SIGA must determine that it has the appropriate and relevant human capacity and work towards achieving that capacity. SIGA must also have a staff training plan so that staff know how the revised policies will affect their duties and responsibilities.

We recognize that the revision and implementation of the policies and procedures will take time and resources.

In this Part, we describe what SIGA has done as at August 2001 to address the recommendations we made in our 2000 Fall Report – Volume 2. For each of these recommendations (see Exhibit 1), we describe what SIGA has done and what it plans to do to comply with our recommendations. The work we did for this part of the chapter does not constitute an audit. We are unable to assess the adequacy of the new policies at this time because the new policies have not operated long enough for an assessment. We will report a full assessment next year.

Recommendation in our 2000 Fall Report – Volume 3
SIGA should establish a proper code of conduct and that code of conduct should be appropriate for managing public money.

Status

In February 2001, Liquor and Gaming and SIGA's membership appointed a new Board of Directors for SIGA. The new Board of Directors met for the first time on February 16, 2001.

In November 2000, Liquor and Gaming provided guidelines for a code of conduct policy for the Board of Directors. In February 2001, SIGA revised that policy and on March 2, 2001, the Board of Directors approved the revised policy. Liquor and Gaming has also approved the revised policy.

The policy sets out principles for Board members' conduct and provides guidelines on Board members' fiduciary duties, regulatory duties, duty of care, and ethical guidelines. The policy requires the Board to ensure that individual members comply with those guidelines and calls upon the Board to designate an Ethics Advisor. The Board's Governance Committee currently acts as the Ethics Advisor.

Under the policy, the Ethics Advisor is required to monitor and report annually to the Board concerning compliance with the established guidelines. So far, we have not seen a report from the Ethics Advisor, nor have we seen the rules and procedures that the Ethics Advisor must use to monitor compliance with those guidelines.

The Board's code of conduct policy is appropriate for managing public money. The Board, however, needs to do more to ensure compliance with its policy. Also, SIGA should establish a code of conduct policy for the entire organization and the policy should be appropriate for managing public money. SIGA should communicate this policy to all staff.

SIGA has made substantial progress in this area. Now it needs to ensure that the entire organization adopts a culture that is consistent with the Board's code of conduct.

Recommendation in our 2000 Fall Report – Volume 3
SIGA should document and communicate to its senior management the goals and objectives of SIGA.

Status

All organizations need to establish their goals and objectives to enable them to prepare business and financial plans and monitor their performance.

We have not seen a strategic plan for SIGA or its goals and objectives. We think SIGA needs to finalize its strategic plan and its goals and objective before its fiscal year begins. This way senior management will know how best they can contribute toward achieving SIGA's goals and objectives, and what resources they need to accomplish the set goals and objectives. Management can then prepare a business plan for the next year and seek the Board's approval.

Management told us that the Board of Directors planned to meet in September, 2001 to discuss and develop SIGA's strategic plan including its goals and objectives.

Recommendation in our 2000 Fall Report – Volume 3
SIGA's Board should establish an appropriate conflict of interest policy for Board members and management and ensure all Board members and senior management comply with the established conflict of interest policy.

Status

In November 2000, Liquor and Gaming provided SIGA with guidelines for a conflict of interest policy. In February 2001, management revised that policy. On March 2, 2001, the Board of Directors approved the policy proposed by management. Liquor and Gaming has also approved the revised conflict of interest policy.

The policy applies to all Board members, employees, and agents or personal services contractors. The policy states:

> The unpermitted mingling of personal interests with Authority duties or responsibilities or the perception of same is not acceptable.

The policy defines conflict of interest and sets out the responsibilities of Board members, employees, and agents or contractors. The policy also provides guidelines for outside employment, acceptance of gifts and prizes, prohibition of gaming, and provides information on disciplinary action in case of continued conflict of interest. We think SIGA's conflict of interest policy is appropriate.

The policy requires all Board members, employees, and agents or contractors to complete, by March 31, 2001, a Conflict of Interest Disclosure/Approval form disclosing any existing or potential conflicts of interest. By August 2001, all employees and Board members had completed those forms.

The Non-Profit Corporations Act, 1995, requires directors of non-profit corporations to disclose in writing or have entered in the minutes the nature and extent of directors' interest where they are party to a material contract. Such disclosures provide transparency for the Board's actions and can be a helpful defence in case the Board's actions are challenged externally. The Board minutes did not show evidence of any conflict of interest. The Board needs to do more to comply with SIGA's conflict of interest policy and *The Non-Profit Corporations Act, 1995.* The Board should, in each meeting, have a standard agenda item dealing with any conflict of interest issues. The Board can then document whether or not it faced any conflict of interest issues and how it dealt with those issues.

Recommendation in our 2000 Fall Report – Volume 3

SIGA's Board should prepare a complete business and financial plan for its operations, define its management reporting needs and communicate those needs to management for regular reporting, and establish an independent internal audit function that should report directly to the Board.

Status

Business and financial plan

For the year ended March 31, 2001, SIGA did not have a business plan. Nor does SIGA have a business plan for the year ending March 31, 2002.

To ensure SIGA's resources are used effectively, the Board should establish a strategic plan for SIGA setting out goals, objectives, and priorities. Management can then prepare a business plan setting out what resources management needs to accomplish the goals and objectives set by the Board. The business plan should provide performance targets (desired results). All levels of management should be consulted in setting performance targets to encourage the full commitment of all those responsible for achieving the targets.

Management told us the Board of Directors planned to meet in September 2001 to discuss and develop SIGA's strategic plan and its goals and objectives. The Board needs to decide on a strategic direction early in the year to ensure management has enough time to prepare the business plan before the beginning of the fiscal year.

The Board approved a budget for SIGA for the year ending March 31, 2002. However, the 2002 budget is not adequate because it is not linked to a strategic plan. Therefore, the Board does not know if the resources it approved are sufficient to achieve the goals and objectives of SIGA.

Defining the Board's reporting needs and internal financial reports

The Board has not formally defined and communicated what financial and operational information it needs and when it needs the information.

Management provides monthly, quarterly, and annual financial reports to the Board and to Liquor and Gaming. The periodic financial reports, however, are inadequate.

The periodic financial reports provided to the Board are not adequate because the financial reports are not prepared in accordance with generally accepted accounting principles. The reports do not include a consolidated balance sheet, a consolidated statement of operations, and a consolidated statement of cash flows. Also, these reports are not timely. For example, SIGA completed financial reports for September 2000 on December 4, 2000.

In addition, the internal financial reports are not adequate for casino managers. The internal financial reports allocate some expenses to various segments of operations. However, the reports do not provide adequate detailed information to casino general managers to effectively manage their operations.

Independent internal audit function

SIGA did not have an independent internal audit function in place during the year. As a result, the Board did not receive assurance that management:

- adequately safeguarded and controlled SIGA's assets; and
- complied with the established policies and procedures.

In May 2001, the Board engaged a person to provide internal audit services. At the time of our work, the internal auditor was preparing a work plan.

Recommendation in our 2000 Fall Report – Volume 3

SIGA should report publicly through FSIN and Liquor and Gaming setting out SIGA's planned results and actual results and make public through FSIN and Liquor and Gaming a list of persons (e.g., employees, suppliers) who have received money from SIGA and the amount each person received.

Status

In November 2000, Liquor and Gaming provided SIGA guidelines for an annual report policy. In February 2001, management revised that policy. On March 2, 2001, the Board of Directors approved the revised policy. Liquor and Gaming has also approved the revised annual report policy.

The policy requires SIGA to publish an annual report beginning with the fiscal year ending March 31, 2001 on a timely basis but no later than September 30, 2001. The policy requires that the annual report should include:

- a statement of Mission, Vision, Values and Objectives;
- a listing of all Board members and senior management;
- a description of governance practices;
- a description of operations including an organization chart;
- a description of key performance indicators;
- a description of accomplishments including a comparison of planned to actual results;
- an identification of key risks and a description of systems and practices to manage these risks; and
- a complete set of audited financial statements

The policy also requires SIGA to make public a list of persons (e.g., employees, suppliers) who have received money from SIGA and the amount each person received.

We think SIGA's annual report policy is appropriate. To date, we have not seen SIGA's annual report. Liquor and Gaming tabled SIGA's audited financial statements for the year ended March 31, 2001 with Liquor and Gaming's 2001 annual report.

Neither SIGA nor Liquor and Gaming has made public a list of persons (e.g., employees and suppliers) who received money from SIGA during the years ended March 31, 2000 and 2001 and the amount each person received. Both SIGA and Liquor and Gaming told us they could not do so because of the advice they received from the Department of Justice.

Recommendation in our 2000 Fall Report – Volume 3
SIGA's Board should establish appropriate delegation of authority rules for the management.

Status

In November 2000, Liquor and Gaming provided SIGA guidelines for a delegation of authority policy. In February 2001, management revised that policy. On March 2, 2001, the Board of Directors approved the revised policy. Liquor and Gaming also approved the revised delegation of authority policy. The policy sets out the levels of approval needed for cheque signing, business travel, the purchase or lease of land and buildings, and service contracts.

SIGA's delegation of authority policy is appropriate. However, SIGA needs better rules and procedures to ensure all employees comply with the approved delegation of authority policy.

Recommendation in our 2000 Fall Report – Volume 3
SIGA should establish written policies for management and staff pay, benefits, professional development, and performance evaluation.

Status

SIGA has established a job classification plan and wage grid for employees who work at casinos. However, SIGA has not yet established a job classification plan and wage grid for head office employees and senior management. Also, SIGA has not yet established professional development guidelines for all of its employees. Also, SIGA has established performance evaluation guidelines for only some of its employees.

SIGA has established job descriptions for all of its employees. Because the Board has not yet established goals and objectives for SIGA, we do not know how SIGA plans to tie the employees' duties and responsibilities to its goals and objectives.

SIGA has not yet established policies and procedures to determine who should receive benefits (use of vehicles, cellular phones, computers, etc.). Currently, SIGA provides leased vehicles to the Chief Executive Officer, a vice president, and four general managers of the casinos. Other employees and management are allowed to use fleet vehicles for business purposes when needed. SIGA has established policies to monitor the use of fleet vehicles by employees. SIGA monitors the use of vehicles for those staff who pay income tax.

Also, SIGA continues to provide cellular phones to certain employees and senior management with a maximum usage of $350 per month for employees and $500 per month for managers and above. SIGA pays the monthly bills for those phones and does not ask individuals to provide details of personal use of those phones if the monthly bill is within the limits.

Recommendation in our 2000 Fall Report – Volume 3
SIGA should establish an appropriate travel policy for Board members and executive management expenses including spousal travel, business expenses, and travel advances.

Status

In February 2001, management prepared a travel and business expense policy for staff, management, and Board members. On March 2, 2001, the Board of Directors approved the policy. The policy was revised again on June 12, 2001. Liquor and Gaming has approved the policy.

The policy requires prior written approval for all out-of-province travel and sets out an authority grid for approving out-of-province travel. Also, the policy clarifies that spousal travel expenses are not permitted for employees and Board members. Further, the policy sets out rules for travel advances. Employees will have any travel advances deducted from their pay if an expense claim is not submitted within 45 days of the trip.

SIGA's new travel and business expense policy is appropriate.

We will examine compliance with the new policy next year.

Recommendation in our 2000 Fall Report – Volume 3
SIGA should establish adequate policies and procedures to ensure its books and records reflect its business operations and there is support for all transactions.

Status

SIGA has not yet improved its rules and procedures to ensure that all transactions are properly supported and recorded. SIGA needs to ensure its chief financial officer provides written guidance to accounting staff about the nature of support and authorization required before payments are made and for making changes to financial records.

We look forward to seeing improvements in SIGA's policies and procedures to ensure its records reflect its business operations and there is support for all transactions.

Recommendation in our 2000 Fall Report – Volume 3
SIGA should establish appropriate written policies and procedures for tendering and awarding contracts.

Status

In February 2001, management prepared a policy for tendering and awarding of contracts. On March 2, 2001, the Board of Directors approved the policy proposed by management. Liquor and Gaming has approved the policy for tendering and awarding of contracts.

To ensure unauthorized employees do not make commitments to vendors, the policy created a centralized purchasing function. Also, the policy provides direction on when to call for a public tender and the process for opening tenders and awarding contracts. The policy also sets out an authority grid for approving and awarding of contracts.

SIGA's tendering and awarding policy is appropriate. SIGA established a centralized purchasing function in August 2001 as required under the new policy. However, SIGA needs to do more work to ensure compliance with its revised policies.

Recommendation in our 2000 Fall Report – Volume 3
SIGA should establish appropriate policies and procedures for its marketing, promotion, and sponsorship activities. Those policies and procedures should include a clear definition of marketing and promotion activities and an approval process for sponsoring community events.

Status

In November 2000, Liquor and Gaming provided SIGA with guidelines for a sponsorship and donation policy. In February 2001, management revised that policy. On March 2, 2001, the Board of Directors approved the policy effective April 1, 2001. Liquor and Gaming has approved the sponsorship and donation policy.

The policy sets out processes for responding to requests from organizations and individuals seeking sponsorship funding from SIGA. Also, the policy established a Sponsorship Advisory Committee to consider requests for sponsorship and monitor spending relating to sponsorship. The policy also sets out guidelines for the Committee. The guidelines describe who may be considered for financial support, SIGA's priorities, and rules for ensuring the organizations spend the money only for approved purposes.

SIGA's sponsorship and donation policy is appropriate. We plan to examine the compliance with the policy during our work next year.

SIGA has not yet established policies for marketing and promotion expenses.

Matters related to the former CEO

In our 2000 Fall Report – Volume 2, we stated that the former Chief Executive Officer (CEO) improperly used corporate credit and debit cards for personal expenses and received unauthorized salary advances. We also stated the CEO had not returned certain corporate assets, totalling $53,750, when his employment ended. We stated that at June 30, 2000, the CEO owed SIGA $811,906 for these items. This amount did not include outstanding travel advances, and the costs of questionable trips that were not for SIGA's purposes. In our 2000 Fall Report – Volume 2, we stated SIGA should determine the amount and recover the money.

SIGA has determined that the CEO owes an additional amount of $26,696 for outstanding travel advances and questionable trips. In June 2001, SIGA recovered the 2000 Cadillac Escalade from the CEO (estimated value of $43,000) and cancelled the contracts with the service providers for cellular telephones and the security system.

So far, SIGA has not recovered the remaining amounts from the CEO. At this time, SIGA told us, recovery of any amount is considered doubtful.

Intergovernmental and Aboriginal Affairs

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Executive summary

This chapter contains two parts. In part A, we report on the results of our 2001 audits of the Department and the First Nations Fund. In part B, we report on our audit of the Department's processes to coordinate action across 15 government departments toward common goals. These goals are set out in *A Framework for Cooperation*.

In Part A, we conclude the Department has adequate processes to safeguard and control public money with one exception relating to First Nations Fund. We report on progress made by the Department to improve its supervision of the First Nations Fund to ensure public money is spent with due care and in accordance with the law.

For the First Nations Fund, we conclude the Fund's 2001 financial statements are reliable. We also continue to report the recommendations that we first made in Chapter 3 of our 2001 Spring Report. The Trustees did not have adequate processes at March 31, 2001 to safeguard and control the Fund's assets and to comply with the law. The Trustees' directions to management since June 2001 encourage us. These directions, once applied, should strengthen the processes and help the Fund comply with the law. We look forward to the Fund implementing the Trustees' directions.

In Part B, we focus on the Department's important role in coordinating the implementation of a key Government policy, *A Framework for Cooperation*. This policy aims to support First Nations and Métis people to participate fully in the Saskatchewan economy. We conclude the Department had adequate processes to coordinate action by key Government departments on the Framework's goals except for processes in two areas. First, the Department needs better processes to help departments align their plans with the Framework's goals and available resources. Our previous reports and recommendations recognize that the Government is working on improving its planning processes. These improvements are important to the success of cross-government initiatives such as the Framework. Second, we recommend that the Department establish processes to obtain written reports from key departments on their actions toward achieving the Framework's goals.

In summary, we are encouraged by the progress made by the Department and the First Nations Fund in ensuring moneys are spent for the purposes intended. Also, we recognize the importance of the Department's role in coordinating key government policies and programs. This coordination is critical to the success of the Government.

Intergovernmental and Aboriginal Affairs

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Introduction

The mandate of the Department is to coordinate, develop, and implement policies and programs of the Government of Saskatchewan governing relations between other provincial, federal, or international governments or governing organizations. The Department is also mandated to coordinate, develop, promote, and implement policies and programs of the Government of Saskatchewan relating to the social and economic development of the Indian and Métis peoples.

Overview of Department spending

The following is a list of major programs and spending reported by the Department in the *Saskatchewan Intergovernmental and Aboriginal Affairs: Annual Report 2000-2001* and the *Public Accounts 2000-2001: Volume 2: Details of Revenue and Expenditure*. (to view a copy of this report, see http://www.gov.sk.ca/finance/paccts)

	Original Estimates	Actual
	(in millions of dollars)	
Accommodation and Central Services	$ 1.4	$ 1.3
Provincial Secretary	1.9	2.3
Intergovernmental Affairs	2.1	1.9
Aboriginal Affairs	42.1	39.2
Administration	1.0	1.1
	$ 48.5	$ 45.8

The above spending for Aboriginal Affairs includes the amounts estimated and actual expenses by the Department of Municipal Affairs and Housing to the First Nations Fund. The Department of Intergovernmental and Aboriginal Affairs assumed responsibility for the First Nations Fund in August 2000.

Audit conclusions and findings

This section contains our audit conclusions and findings of the Department and of the First Nations Fund.

Our Office worked with KPMG, the appointed auditor of the Fund, using the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditor* (see our website at http://www.auditor.sk.ca/rrd.html). Our Office and the appointed auditor formed the following opinions.

In our opinion for the year ended March 31, 2001:

- **The financial statements of the Fund are reliable;**

- **The Department had adequate rules and procedures to safeguard and control public money except for the matters reported otherwise in this part.**

- **The Trustees of the Fund did not have adequate rules and procedures to safeguard and control public money because of matters reported in this part; and**

- **The Department complied with authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing. We are unable to determine if the Trustees of the Fund did so because of matters described in this part.**

The following sets out our audit findings in more detail for the Department and the First Nations Fund.

Audit findings for the Department

For the Department, we identify the activities that the Department has undertaken to comply with a previous recommendation.

Improving supervisory responsibility over First Nations Fund

In Chapter 3 of our 2001 Spring Report, we make the following recommendation. We continue to make this recommendation.

1. **We continue to recommend that the Department should supervise the Trustees of the First Nations Fund to ensure**

the Trustees spend public money with due care and in accordance with the provincial legislation.

The following sets out our expectations and the Department's progress towards compliance with this recommendation.

As previously mentioned, the Department assumed responsibility for the Fund in August 2000. The Department provides the Fund with money to be spent on social and economic development programs and policies for First Nations people.

We expected the Department to undertake sufficient steps to ensure that the money it paid to the Fund was spent for the purposes intended. Possible steps include those that would ensure the Trustees of the Fund clearly understand their fiduciary responsibilities, and the Trustees appropriately monitor the activities of the Fund. We expected the Department to receive information throughout the year from the Fund that would allow it make this determination.

Much of the Department's progress was made after its year-end. During 2000-01, the Department delayed the payments to the Fund until our Office had access to audit the Fund. It awaited the results of the audit before undertaking further steps. In June 2001, its Minister of Aboriginal Affairs met with the Chief of the FSIN. The Department advised us that the Minister and Chief discussed the need for the Fund to develop accountability measures to address the recommendations that we made in our 2001 Spring Report. In addition, the Department asked the FSIN to provide it with copies of the regular reports from First Nation bands on spending from the Fund. It has also asked the Fund to provide it with similar reports on other spending of the Fund.

Audit findings for the First Nations Fund

Background

The Saskatchewan Gaming Corporation Act (Act) established the First Nations Fund (Fund). Cabinet appoints the Trustees of the Fund.

The Trustees are stewards of public money and are responsible for carrying out economic development, social development, justice, health, and other initiatives relating to First Nation bands (First Nations) as required by the Act.

The Legislative Assembly makes money available to the Department of Municipal Affairs, Culture and Housing for the Fund. Effective August 3, 2000, Cabinet made the Department of Intergovernmental and Aboriginal Affairs (Department) responsible for the Fund.

The Fund is subject to an audit under *The Provincial Auditor Act*. Cabinet appointed KPMG as the appointed auditor of the Fund.

For the year ended March 31, 2001, the Department paid $11 million (2000 - $11.8 million) to the Fund.

For the year ended March 31, 2001, the Fund had revenues of $11.0 million (2000 - $11.8 million) and expenses of $11.0 million (2000 - $11.8 million). The Department gave the Legislative Assembly the Fund's financial statements for the year ended March 31, 2001.

Summary of 2001 Spring Report recommendations

We released our 2001 Spring Report in June. In that Report, we provided our audit conclusion and findings for the Fund's year ended March 31, 2000 and made the following recommendations.

- The Trustees of the First Nations Fund should establish rules and procedures to ensure the First Nations (Indian bands) only use the money received from the Trustees for the purposes described in *The Saskatchewan Gaming Corporation Act.*

- The Trustees of the First Nations Fund should establish rules and procedures to ensure recipient organizations only use the money received from the Trustees for the purposes described in *The Saskatchewan Gaming Corporation Act* and the Framework Agreement.

- The Trustees of the First Nations Fund should ensure that all payments comply with the law; and

- The Trustees of the First Nations Fund should prepare an annual report that includes:
  - the Fund's financial statements;
  - the Fund's goals and objectives;
  - the Fund's planned and actual performance;
  - the Fund's risks and how the Trustees are managing those risks; and
  - a list of persons and organizations that have received money from the Fund and the amount each person or organization received.

Progress toward our recommendations

Because our 2001 Spring Report was not released until June 2001, the Trustees could not address the above recommendations during the year ending March 31, 2001. Since March 2001, the Trustees and the Federation of Saskatchewan Indian Nation (FSIN) have taken some steps to address them. The following is a summary of those steps.

1. Management provided us a copy of a letter dated July 31, 2001 sent to all First Nations. In that letter, the Chair of the Trustees reminded all First Nation Chiefs that they can only use the money they receive from the Fund for specific purposes. The letter listed those purposes. The purposes listed were consistent with the Act.

2. On August 17, 2001, the Trustees of the Fund passed a motion directing staff of the Fund to request the appropriate work plan and budgets for those institutions and programs that receive money from the Fund (other than the First Nations).

3. Management of the Fund provided us with a copy of motions passed on September 20, 2001 by the Economic & Community Development Commission of the FSIN.

   The first motion reads:

   > Therefore be it resolved that the present First nations Trust Board of Trustees are to be replaced by non-elected/non-political appointments of individuals who possess appropriate and relevant business backgrounds.

The second motion reads:

> Therefore be it resolved that the membership of the FSIN and Economic & Community Development Commission support the First Nation Trust Board of Trustees in development and implementation of a process of accountability between First Nations and other organizations or entities that receive money from the Trust Fund, and the Trustees of the First Nations Trust Fund.

4. Management provided us with a recommended accountability process between the Trustees and the First Nations. The process includes the following three conditions:

Agreement between the two parties

The Trustees and individual First Nations will sign agreements to confirm that:

a) money was spent on specific purposes;
b) money was spent on those purposes by specific dates; and
c) mechanisms are in place to deal with non-compliance issues in the event that this happens.

Reporting to the Trustees

A separate schedule within the audited financial statements or a note within the financial statements of each First Nations can state specifically what the money was spent on during the year.

Policy on non-compliance

In the event of non-compliance, the Trustees will develop a policy that clearly outlines the actions that the trustees must take.

In our 2001 Spring Report, we said we were concerned that the Trustees may continue to operate the Fund outside the provincial legislation. We said so because the Trustees maintained that the Fund they administered was not the Fund that was established under the Act. During our discussion with the Fund's management, we were advised that the Trustees now accept that the Fund they administer is the Fund established under the Act. Also, the steps taken by the Trustees reflect this thinking.

We are encouraged by the steps taken by the Trustees. The Trustees need to further strengthen the proposed accountability process. The process should also include receiving project proposals from individual First Nations and other organizations. The proposals should set out the objectives that the First Nations and other organizations plan to achieve and how they plan to spend that money. The Trustees can then monitor how well the First Nations and other organizations achieved their planned objectives and how they spent the Fund's money.

Now that the Trustees have made the policy decisions, we expect management to set out its plan to implement the Trustees' decisions. Such a plan should include a timeline showing when operating policies and procedures will be revised. The plan should also describe what staff training, if any, is necessary and when the staff will be trained. It should also specify when the revised policies and procedures would be fully implemented.

Next year, we will assess how successfully the Trustees have implemented the proposed accountability process.

The following describes four areas of concern. Under each area, we make a recommendation for improvement.

Ensuring that the money the Trustees pay to the First Nations is used for the purposes described in the Act

The Trustees need rules and procedures to ensure that the money they pay to the First Nations is used for the purposes described in *The Saskatchewan Gaming Corporation Act* (Act) and are properly safeguarded until it is spent.

Section 20(1) of the Act authorizes the Trustees to make payments from the Fund to the First Nations in Saskatchewan for the following purposes:

(a) economic development;
(b) social development;
(c) justice initiatives;
(d) education development;

(e) recreational facilities operation and development;
(f) senior and youth programs;
(g) cultural development;
(h) community infrastructure development and maintenance;
(i) health initiatives; and
(j) charitable purposes in accordance with any agreement between:
    (i) the Government of Saskatchewan or any of its agents; and
    (ii) the Federation of Saskatchewan Indian Nations or Saskatchewan Indian Gaming Authority Inc.

To ensure the First Nations spend the money that they receive from the Trustees for the purposes described in the law, the 1994 Agreement between the Government and the FSIN states that the Chiefs' Assembly may establish criteria for making payments from the Fund. The established criteria may include the process for such payments and the requirements relating to audits of recipients of such payments (including the appointment of auditors for such purposes).

We expected the Trustees to have a fair and equitable method of allocating money to all First Nations in Saskatchewan. To ensure that the First Nations use that money for the objectives described in the Act, we expected the Trustees would ask the First Nations to provide project proposals to the Trustees. Such project proposals would set out what the First Nations planned to achieve for their people and how they planned to spend the money. We also expected the Trustees to have a process in place to monitor how well the First Nations achieved the planned objectives and to monitor the use of the money. Also, we expected the Trustees to have rules and procedures to ensure that the First Nations safeguard the money they receive from the Trustees until the money is spent. These expectations are common practices for Saskatchewan government agencies.

The Trustees paid money to the First Nations on a per capita basis using the membership of each First Nation. We think allocation to the First Nations on per capita basis is a fair and equitable method. The Trustees paid $9.4 million to the First Nations in Saskatchewan for the year ended March 31, 2001. The Trustees, however, did not place conditions on the use of the money that they paid to the First Nations. Nor did the Trustees do any procedures to ensure that the First Nations spent the money for the purposes described in the Act. As a result, the Trustees do not know if the First Nations spent the money for the purposes set out in law.

Because the Trustees did not properly carry out their responsibilities, we are unable to determine whether the money the Trustees paid to the First Nations was used for the purposes set out in the law.

2. **We continue to recommend that the Trustees should establish rules and procedures to ensure the First Nations only use the money received from the Trustees for the purposes described in *The Saskatchewan Gaming Corporation Act*.**

Management told us that the Trustees continue to work toward strengthening the Fund's accountability framework. Management also told us that under the Framework Agreement between the Government of Saskatchewan and the FSIN, First Nations are required to use the money they receive from the Fund for the purposes outlined in *The Saskatchewan Gaming Corporation Act*. Furthermore, management told us that the Agreement does not require First Nations to present project proposals to the Trustee before receiving money from the Trustees.

Ensuring that the money the Trustees give to the FSIN is spent for the purposes intended

During the year, the Trustees paid the FSIN the following amounts for the First Nations Addictions Rehabilitation Foundation (Foundation), the Saskatchewan Indian Veterans Association (Association), Justice initiatives (Justice), and for the administration of the Fund.

Foundation	$ 944,350
Association	71,250
Justice	298,000
Administration	100,000
Total	$ 1,413,600

We expected that the Trustees to have asked the FSIN to provide them with the business plans for those organizations requesting money from the Trustees. Such business plans would set out what the organizations intended to achieve and how they planned to use the money requested. We also expected that the Trustees would have processes to monitor how successfully those organizations achieved the planned objectives and to monitor the use of the money. Also, we expected that the Trustees would have rules and procedures to ensure the recipient organizations safeguarded the money they received from the Trustees until the money is spent.

Payments for the Foundation

The Framework Agreement required the FSIN to establish a charity that would work in co-operation with government agencies to ensure that effective and accessible prevention and treatment programs for gambling addictions are available to the First Nations people. During the year, the Trustees paid $944,350 to the FSIN for the Foundation. The Trustees could not provide us with any information relating to the operations of the Foundation or the programs that the Foundation provided to the First Nations people. The Trustees did provide us with the recently released FSIN annual report for the year ended March 31, 2001. That report includes information relating to the Foundation and a summary of the work that the Foundation did over the past year. The Trustees need to set out the objectives that they expect the Foundation to achieve with the money it receives from the Fund. Also, the Trustees need a report from the Foundation that sets out the Foundation's progress toward achieving those objectives.

The Trustees' rules and procedures were not sufficient to know that the money they paid to the FSIN for the Foundation was used for the purposes of the Foundation and that the Foundation is co-operating with government agencies. As a result, we are unable to determine whether the money that the Trustees paid to the FSIN for the Foundation was used for the purposes set out in the law.

Payments for the Association

Section 20(1) of the Act authorizes the Trustees to make payments for senior and youth programs. During the year, the Trustees paid $71,250 to the FSIN for the Association. The Trustees could not provide us with any information about the objectives of the Association or the nature of programs that it provides to First Nations' veterans. Also, they could not provide written evidence that the money they gave the FSIN for the Association was used for the purposes of the Association. The Trustees did provide us the recently released FSIN annual report for the year ended March 31, 2001. The report includes financial information relating to the Association, but provides no information on the operations of the Association. The report does not provide any information on the objectives that the Association intended to achieve and how well it achieved those objectives. The Trustees' rules and procedures were not sufficient to know whether the Association used the money as set out in law. As a result, we are unable to determine whether the money the Trustees paid to the FSIN for the Association was used for the purposes set out in the law.

Payments for Justice initiative

Section 20(1) of the Act authorizes the Trustees to make payments for justice initiatives. During the year, the Trustees paid $298,000 to the FSIN for a justice initiative relating to an investigation and inquiry into the Saskatchewan justice system. The Trustees could not provide us with any information about the objectives of the justice initiative or how well the FSIN achieved those objectives. The Trustees did provide us the recently released FSIN annual report for the year ended March 31, 2001. The report provides financial information about the justice initiative, but provides minimal information about what the FSIN intended to achieve with the money that it received from the Fund and how successfully it achieved those objectives. The Trustees' rules and procedures were not sufficient to know whether the money they paid to the FSIN for the justice initiative was used for an investigation and inquiry into the Saskatchewan justice system. As a result, we are unable to determine whether the money the Trustees paid to the FSIN for the justice initiative was used for that purpose.

Payment for the fund administration

The Act states that the pay and the expenses of the Trustees and the necessary expenses of administering the Fund are a charge on and payable out of the Fund.

The Trustees paid the FSIN money for the administration of the Fund. We expected that the Trustees would have an agreement with the FSIN setting out the administrative duties that the Trustees required the FSIN to do and a process for reimbursing the FSIN for the expenses it incurred for the Trustees.

The Trustees did not have a written agreement with the FSIN. Also, the Trustees did not have any evidence supporting the payments to the FSIN for administration of the Fund. The Trustees did not have details of the nature of expenses incurred by the FSIN on behalf of the Trustees. The Trustees' rules and procedures were not sufficient to know whether the money they paid the FSIN for administration was appropriate and complied with the law. As a result, we are unable to determine whether the money the Trustees paid to the FSIN for administration complied with the law. Also, we do not know how much, if any, the Trustees received as pay and expenses from the Fund.

3. **We continue to recommend that the Trustees should establish rules and procedure to ensure recipient organizations only use the money received from the Trustees for the purposes described in the *Saskatchewan Gaming Corporation Act* and the Framework Agreement.**

Management told us that the Trustees have requested budgets and work plans from each of the programs funded. Also, management told us that the Trustees are working on formalizing the arrangements with the FSIN for the administration services.

Certain transactions not permitted under the law

Earlier, we said that we are unable to determine whether the Trustees complied with the laws governing the Fund's activities. During our work, we found certain transactions that are not permitted under section 20(1) of *The Saskatchewan Gaming Corporation Act* (Act). Section 20(1) of the Act authorizes the Trustees to make payments out of the Fund for the purposes described in that section.

During the year, the Trustees made the following payments:

National Assembly travel subsidy payments to the First Nations	$	144,000
White Bear First Nation payments for historical gaming costs		100,000
Total	$	244,000

National Assembly travel subsidy payments to the First Nations

During the year, the Trustees paid $2000 to each First Nation to subsidize the cost of travel to an Assembly of First Nations' general meeting. The Trustees paid $144,000 to the First Nations for the travel subsidies. Section 20(1) of the Act does not permit such payments. Accordingly, these payments are without authority.

White Bear First Nation – payment for historical gaming costs

During the year, the Trustees made a $100,000 payment to the White Bear First Nation (White Bear) described as historical gaming costs related to the planning and development of the Bear Claw Casino. Also, the Trustees approved a total of $300,000 for payments to White Bear over three years for those historical gaming costs. The Trustees plan to specifically approve these payments quarterly. The remaining $200,000, if paid, would also lack proper authority. Section 20(1) of the Act does not authorize the Trustees to make payments to the First Nations for the planning and development of casinos. Accordingly, the $100,000 payment to White Bear is without authority.

4. **We continue to recommend that the Trustees should ensure that all payments comply with the law.**

Management told us that the Chiefs in the regions were assisted with the travel costs to ensure that they provided directions to the Assembly of First Nations for policy development in the areas of social, economic, and educational development and health initiatives.

Also, management told us the payments to White Bear are contributions recognizing the positive financial benefits the First Nations in

Saskatchewan now receive and that the historical gaming costs were necessary costs for the economic development of First Nations in Saskatchewan.

Public accountability—preparation of an annual report

To assess the performance of an organization that uses public money, the Legislative Assembly and the public need to know what the organization is all about, how it manages its key risks, what it has done, where it is now, and what it plans to do. They also need information about the organization's goals and objectives and how successful the organization has been in achieving those objectives.

Most public sector organizations publish annual reports. Those annual reports, although still needing improvement, have much of the information the Legislative Assembly and the public need to assess the organizations' performance. The organizations also provide a list of persons who received money from them and the amount each person received.

Public disclosure of who received money from agencies handing public money is important for three reasons. First, public disclosure serves to remind officials that they are spending money that is entrusted to them by the public. Second, public disclosure adds rigour to decision-making as it ensures that those who spend public money know that their use of that money will be public. Third, public disclosure ensures that the public knows who has received their money.

The Trustees of the Fund do not prepare an annual report. The Trustees do table annual audited financial statements in the Legislative Assembly. Financial statements alone do not provide all of the information the public needs to assess the Fund's performance. Public support for organizations increases when they are fully transparent and provide performance information to the public and other stakeholders.

5. **We continue to recommend that the Trustees prepare an annual report that includes:**

   - **the Fund's audited financial statements;**
   - **the Fund's goals and objectives;**
   - **the Fund's planned and actual performance;**

- **the Fund's risks and how the Trustees are managing those risks; and**
- **a list of persons and organizations who have received money from the Fund and the amounts each person and organization received.**

Management told us that the Trustees intend to publish an annual report for the Fund that will include some of the above information.

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Coordinating action across government

8B

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Background

Coordinating the activities of many organizations is not easy. It requires flexible models of governance to work toward common goals. It also requires the skill to draw together senior managers with different perspectives and priorities.

In 1997, the Government asked the Department of Intergovernmental and Aboriginal Affairs to coordinate the implementation of the Government's policies regarding Métis people and First Nations people who live away from reserves.

By 1999, the Government's policies had evolved into a discussion paper about principles and goals for increasing the participation of Métis and off-reserve First Nations people in society. The Government used the discussion paper to seek comments from Aboriginal people, leaders in education, and seven Saskatchewan communities. Following those discussions, in January 2001, the Government announced its current policy—*A Framework for Cooperation: Practical Approaches to Issues Affecting Métis and Off-Reserve First Nations People in Saskatchewan* (the Framework). This policy responds to the 1996 report of the Royal Commission on Aboriginal Peoples. The Framework is publicly available on the Department's website at http://www.iaa.gov.sk.ca/aboriginal.

The Government initially asked the Department to coordinate the implementation of the Framework among six departments. The Framework now requires action by 15 departments.[1] Crown corporations such as SaskTel and the Saskatchewan Liquor and Gaming Authority do not yet participate directly.

The Framework sets out four goals (see Exhibit 1). The goals aim to improve the long-term future of Métis and off-reserve First Nations people and increase their participation in the Saskatchewan economy. Métis and

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[1] The Framework involves thirteen departments with service delivery responsibilities: Education; Post - Secondary Education and Skills Training; Economic and Co -operative Development; Labour; Environment and Resource Management, Social Services; Health; Justice; Municipal Affairs and Housing; Culture, Youth and Recreation; the Office of Northern Affairs; Intergovernmental and Aboriginal Affairs; and the Public Service Commission. In addition, central agencies help to facilitate the *Framework* including the Department of Executive Council (particularly Cabinet Planning Unit) and the Department of Finance (particularly Treasury Board Branch and the Accountability Project within the Performance Management Branch).

First Nations people form a rapidly growing part of Saskatchewan society. By 2020, Statistics Canada predicts that Aboriginal people will make up a large proportion of the work force in Saskatchewan.[2]

Exhibit 1

Goals set out in *A Framework for Cooperation*
1. Enhance the successful entrance and completion of primary, secondary, and post-secondary education for Métis and off-reserve First Nations people. 2. Prepare Métis and off-reserve First Nations people to participate in a representative provincial workforce. 3. Ensure representative workforce participation by Métis and off-reserve First Nations people in the provincial economy. 4. Improve the individual and community well being of Métis and off-reserve First Nations people.

The Department's role, as the lead or coordinating department, is to share information and understanding about the Framework across the Government. The Department must also gain the cooperation of participating departments to take action on this policy. Successful coordination is critical to implement the Framework and to achieve its goals.

Audit objective and criteria

The objective of this audit is to examine whether the Department has adequate processes to coordinate action by key Government departments on the goals set out in *A Framework for Cooperation: Practical Approaches to Issues Affecting Métis and Off-Reserve First Nations People in Saskatchewan*. The audit focuses on processes that the Department used from October 1999 to July 2001.

During all phases of this audit, we followed *The Standards for Assurance Engagements* of The Canadian Institute of Chartered Accountants (CICA). The CICA established these standards to guide the work of auditors.

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[2] Based on Statistics Canada, 1996 Census: Dimensions Series. *Portrait of the Aboriginal Population in Canada*

After discussion with the Department, we used international literature and the reports of other auditors to develop criteria (see Exhibit 2). The Department agreed with these criteria.

We assessed the Department's coordination processes against these criteria. We examined policies, plans, minutes, reports, and other tools for communication. In addition, we interviewed selected key officials in the coordinating Department and in three participating departments. We also examined how the Department uses interdepartmental forums to coordinate action.

Exhibit 2 - Criteria

To coordinate action by key Government departments on the goals set out in *A Framework for Cooperation*, the Department should have processes to:

1. **Establish accountability for action on common goals**
    Establish coordination structures
    Establish accountability tools
    Obtain commitment for action on goals
2. **Provide leadership for action on goals**
    Communicate expectations, risks, and opportunities
    Encourage realistic balance of expectations with resources
3. **Make visible the extent of progress**
    Monitor performance regularly
    Follow-up on commitments to action
    Report performance

Audit conclusion and recommendation

We found that the Department had adequate processes, from October 1999 to July 2001, to coordinate action by key Government departments on the goals set out in *A Framework for Cooperation,* except for the following processes.

First, the Department needs to develop better processes to ensure that key participating departments appropriately align their plans with the goals and objectives of the Framework in a way that balances expectations with available resources. To develop these processes, the

Department needs to continue its work with the Government's central agencies (e.g., Departments of Finance and Executive Council). We made related recommendations for improved government planning processes in previous reports (i.e., Chapter 1A of our 2000 Fall Report – Volume 3 and Chapter 1A of our 2001 Spring Report).

Second, the Department needs better processes to ensure that it receives regular written reports from key participating departments about the actions they take or plan to take, and the barriers to these actions.

With written reports from the participating departments, the Department would be better able to monitor what is done, what is not done, and what requires more follow-up action or coordination. Written reports also would assist Cabinet to more effectively monitor action on the Framework and provide Cabinet with better information to allocate resources.

1. **We recommend that the Department of Intergovernmental and Aboriginal Affairs establish processes to obtain regular written reports from the participating departments on actions they take toward achieving the goals set out in *A Framework for Cooperation*.**

Because *A Framework for Cooperation* is a relatively new Government strategy, the Department has not yet fully developed its processes to report on the results of the Framework. At this time, we are unable to assess if the Department has adequate processes to make visible the extent of the Government's progress towards achieving the goals of the Framework.

We encourage the Department to continue its efforts to report both actions and results to the Cabinet and in turn to the public. We made related recommendations for improved government processes to report performance (i.e., actions and results) in previous reports (i.e., Chapter 1A of our 2000 Fall Report – Volume 3 and Chapter 1A of our 2001 Spring Report).

Key findings by criteria

For each main criterion (see Exhibit 2), we summarize (in italics) our expectations of the Department in its role as the lead coordinating partner. We then describe our key findings for each criterion.

Establish accountability for action on common goals

We expected that as the lead coordinating partner, the Department would:

- *use coordination structures such as a steering committee and obtain a clear mandate as the coordinating department;*
- *establish accountability tools to guide its partner departments to act on common goals (i.e., establish clear roles for participating departments, dates for the achievement of specific targets, and a system to report progress on actions and results); and*
- *work with senior officials and legislators to get commitment for the necessary action to achieve the Government's goals (e.g., seek approval for plans and resources).*

Establish structures to coordinate action

On July 28, 1997, Cabinet gave the Department a mandate as the lead coordinator, and asked the Department to assess the impact of current programs toward improving the situation of Métis and off-reserve First Nations people. Cabinet routinely reconfirmed the mandate of the Department as the lead coordinator from 1997 to 2001.

Cabinet asked the Department to work with other departments to make proposals for action. The Department told other departments about its mandate as lead department when it invited them to become participants. In 2000 and 2001, written invitations explained the nature of the Government strategy and the role of the lead department to coordinate action.

In 1997, at Cabinet's request, the Department established an Interdepartmental Committee as a key structure to coordinate action. Membership grew from the original six departments to thirteen participating departments and agencies. The Committee met almost monthly from 1999 to 2001. The Committee focuses on sharing information and planning.

In addition to the 13 participating departments, two central agencies (i.e., the Departments of Finance and Executive Council) attend meetings of the Interdepartmental Committee. As the lead coordinator, the Department works closely with these central agency representatives to help departments to plan and obtain resources for action toward the goals of the Framework.

Establish accountability tools

For each goal in the Framework (see Exhibit 1), Cabinet established clear objectives, targets with dates and priority actions.[3] This is an important accountability tool.

Participating departments told us the targets will be difficult to achieve and achieving them will require more resources. The Department recognizes that challenges exist in using the targets to establish accountability for action. The Department acknowledges that unrealistic targets (or targets perceived as unrealistic) can discourage action, rather than encourage it. At the same time, it notes that challenging targets help convey the importance, and perhaps the urgency, of action to achieve the targets and the goals of the Framework.

In addition, the Department coordinates the development of action plans for the Framework with the assistance of participating departments. The Interdepartmental Committee discusses and agrees on an action plan for the next year for the Framework. These action plans are a second important accountability tool.

As the lead coordinator, the Department also needed to establish an accountability system of regular reporting from participating departments about their activities and results. From 1999 to 2001, the Department routinely requested participating departments to make verbal reports on their activities during meetings of the Interdepartmental Committee. The Department did not specify the expected content of the reports. Verbal reports are less effective than brief written reports accompanied by verbal explanations.

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[3] The Department, on behalf of the Interdepartmental Committee, continues to discuss these objectives and priorities with the community and various stakeholders. The Department told us it plans to make the targets public for discussion in 2002.

Obtain commitment for action on goals

As a part of obtaining commitment for action on goals, the Department appropriately respected the accountability relationships of the participating departments. For example, the staff is accountable to the deputy, the deputy to the minister, and the minister to Cabinet. The Department respected the role of Cabinet and its subcommittees to give direction to participating departments. The Department recognized that this respect was essential to gain the commitment of participating departments.

As the lead coordinator, the Department used several methods to gain the commitment of all partners to take action toward achieving the goals of the Government's strategy. It kept the members of the Interdepartmental Committee and other key government officials informed by sharing documents, calling meetings, and distributing Committee meeting minutes. It also assisted discussion in meetings of the Committee. During these meetings, participants talked openly about barriers to action and the nature of support required for success. They shared ideas and drew attention to opportunities.

To gain the support of deputy ministers and ministers across participating departments, the Department provided members of the Interdepartmental Committee and deputy ministers with various opportunities to provide input into information submitted to Cabinet about the Framework. For example, it provided them with drafts of the written reports and formally invited their comments until a consensus was reached on the report's content. When the reports required a decision of Cabinet, the ministers of all participating departments jointly signed them. The Department also encouraged the deputy ministers and ministers of these departments to attend and actively participate in meetings of Cabinet's subcommittees.

Participation in this process gave deputy ministers several opportunities to influence decisions, to understand the rational for a course of action, and to assess the consequences of inaction. This participation should increase the commitment of these senior officials to act on the goals of the Framework.

A key to gaining commitment is the process to gain resources for joint action. The Department expected the participating departments to plan and budget for actions toward achieving the goals of the Framework in their individual plans and budgets. As the lead coordinator, the Department needed a way to help departments assess whether their approved plans would achieve the desired results within the timeframes and resources set by Cabinet. The Department is currently working with the Interdepartmental Committee to further develop processes that help departments align their plans and resources with Cabinet priorities.

As reported elsewhere by our Office, the Government's planning processes are evolving.[4] The Government's planning guidelines encourage departments to set priorities, and to improve the links between their strategic plans and their financial plans (i.e., resources). The Department undertook this coordination at a time when the planning processes used by departments were changing. This made the task of coordination more complex.

Provide leadership for action on goals

It is challenging to provide leadership for action on multiple priorities and across many government departments. The Department faces this challenge as it coordinates action on the four goals of the Framework for Cooperation (see Exhibit 1). We expected communication would be essential for the Department to provide leadership. Participating departments need to know what is expected, what risks they must manage, and which opportunities to grasp. We anticipated that the Department would lead by promoting consensus on priorities for action. We anticipated that the Department would find ways to encourage a balance of expectations with available resources.

Communicate expectations, risks, and opportunities

As the lead coordinator, the Department ensured participating departments knew their responsibilities. Each year, it worked with the Interdepartmental Committee to agree on an action plan for the activities of participating departments. Then, the Department asked the deputy ministers and ministers of the participating departments to approve the annual action plan. Finally, the Department requested that Cabinet approve the annual action plan. This process left little doubt about what the Government expected of the participating departments.

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[4] Chapter 1A – Key Processes to Plan, 2001 Spring Report

In addition, through the Interdepartmental Committee, the Department shared information about the changing environment and situations of risk or opportunity affecting the Framework. Participating departments could then consider how best to use this information.

With continued increases in the number of participating departments and the large number of departments involved, one of the leadership challenges that the Department faced was the changing membership of the Interdepartmental Committee. The Department oriented new committee members to ensure they understood the purpose, goals, and priorities of the Framework. The orientation included key documents and discussions to give new members a clear understanding of the importance of action by participating departments.

Encourage realistic balance of expectations with resources

A common way to balance expectations and resources is to agree on priorities. The Department primarily used two ways to promote consensus on priorities—community consultation and processes to set priorities within departments.

In 1999, the Department facilitated consultation by participating deputy ministers with Aboriginal leaders and key education groups. For example, as part of this process, the Department consulted the Federation of Saskatchewan Indian Nations and the Tribal Council chiefs, the Métis Nation-Saskatchewan and the Provincial Métis Council, Saskatchewan School Trustees and the Saskatchewan Teachers Federation, and provincial post-secondary education leaders. The Department used these consultations, along with the priorities raised in seven community meetings held throughout Saskatchewan, to identify the priorities for the Framework.

The Department worked with the members of the Interdepartmental Committee to gain consensus that these community priorities were consistent with priorities for action in the Framework. The Department reconfirmed these priorities with Cabinet. Agreement on priorities is an important step toward balancing resources and planned targets.

The Department also proposed a rating system to help set priorities within the participating departments. In the 2000-01 planning cycle, three participating departments used this rating system to set priorities. The Department also worked directly with the central agencies to help promote a balance between resources and expectations.

The two processes used by the Department to promote priority setting were not sufficient. Neither the members of the Interdepartmental Committee nor the participating deputy ministers could fully align the objectives and planned targets of the Framework with departments' other priorities within the resources available.

We note that for the 2002-2003 Budget, the Government has announced that it will use a new approach to budgeting for important strategies, like the Framework, that involves many departments. This budget process will require lead departments to coordinate an action plan that will achieve the Government's objectives within the resources available. The action plan must include specific activities (and costs) that will contribute directly to the achievement of Government objectives like those in the Framework.

The Department anticipates that this new budgetary process, along with its processes for setting priorities, will help to overcome some of the challenges faced by important government-wide strategies.

Make visible the extent of progress

We expected that as the lead coordinator, the Department would monitor the actions of participating departments, evaluate progress, and report it to Cabinet. We anticipated that the Department would follow-up to confirm that participating departments carried out the planned actions. In this way, the Department could identify barriers to action and focus attention to resolve the barriers. We expected it would be essential for the Department to report to Cabinet, and later to the public, on the extent of progress by all participating departments on key performance targets.

Monitor performance regularly

The Department needs to improve its ability to monitor whether participating departments took action as planned. The Department also needs to monitor whether the expected results of the Framework are being achieved.

From 1997 to 2001, the Department monitored departmental actions primarily through verbal reports on activities from participating departments during meetings of the Interdepartmental Committee. Verbal reports are not efficient for large groups. Also, only 10 departments reported during 2000-2001. Some key departments did not report on their actions.

Monitoring results also can be challenging. In February 2001, Cabinet confirmed its planned targets for the Framework subject to further community consultation. The Department tried to use these targets to monitor results based on progress toward priority objectives. It found that it could not easily get timely and reliable information at a reasonable cost. The Department noted that some participating departments collect the required information, while others do not. It also noted that the availability of some information depended upon Statistics Canada. Statistics Canada updates some information only at intervals (e.g., 5 year cycle of Canadian Census data). The Department has also identified that current statistics may not be complete or accurate because they rely on individuals to self-declare their Aboriginal status. Ad hoc research might be the only way to collect some information at a reasonable cost.

We encourage the Department to pursue reasonably low-cost ways of assessing progress toward the performance targets of the Framework.

Follow-up on commitments to action

As the lead department, the Department is responsible to coordinate further action when progress is insufficient, or when the action taken is not effective. From 1999 to 2001, the Department relied primarily on discussions with the members of the Interdepartmental Committee and on communications with the deputy ministers and ministers of the participating departments.

During 2001, the Department developed a process to help evaluate action plans for the Framework, and later, to monitor performance. The Interdepartmental Committee worked together to further develop this process. At the time of our audit, this process had not yet been used.

This evaluation process expects each department to independently rate the effectiveness of each planned action. The Committee will then discuss the rated effectiveness of actions until it reaches a consensus that each planned action will be useful to achieve the objectives of the Framework.

The Department also expects the evaluation process to identify whether there are gaps in each year's action plan. That is, the evaluation process will show which objectives do not have an action plan that all agree will be effective. Once this evaluation process begins to work, the Department expects that it will be able to follow-up on areas that require more coordinated action to meet the goals of the Framework.

Report performance

The Department tried to report performance toward achieving the Framework to Cabinet and its subcommittee in 2000. The 2000 report highlighted progress toward achieving some objectives and included related demographic information.

The report did not contain the goals or objectives of the Framework or compare actual results to planned targets. The Department is currently developing processes to report to the public about progress toward achieving the goals of the Framework.

Summary

The Department takes seriously its role as the lead department for the Framework. As yet, not all processes are working effectively to help the Department coordinate action across the many participating departments. To date, the Department has built a sound foundation to coordinate action by key participating departments on the goals set out in *A Framework for Cooperation: Practical Approaches to Issues Affecting Métis and Off-Reserve First Nations People in Saskatchewan*. The Department told us that it will continue to make public consultation a priority.

We look forward to monitoring the future development of this important Government strategy.

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Justice

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Executive summary

In this chapter, we set out the results of our examinations of the Department of Justice and the ten agencies that it manages.

We describe several areas where the Department should improve its processes for safeguarding public money. These processes include its systems to track, enforce, and collect fines; the development of contingency plans for its information technology systems; the strengthening of internal audit; and the strengthening of its project management practices. We also recommend that the Department strengthen its annual report by providing information on the risks that it faces, its performance, and what it owns and controls.

The financial statements of the Department's agencies are reliable except for the Office of the Public Trustee (Office). At the time of this report, the Office cannot prepare its March 31, 2000 and 2001 financial statements.

We also report that the Office did not properly administer its clients' affairs and safeguard their assets. We reported this matter in our Spring 2001 Report. In that report, we made a number of recommendations. Because we released this Report in May 2001, the Office was not able to act on our recommendations for the year ending March 31, 2001. Therefore, the conclusions and recommendations in our Spring 2001 Report continue to apply.

The Office acted promptly to address the recommendations in our Spring 2001 Report. The Office began development of processes to safeguard clients' assets. We describe those actions that the Office has taken and plans to take as at October 15, 2001. We can not provide assurance on the quality of those processes because they are either recently implemented or are being implemented. We will report a full assessment of the Office's management of its clients' affairs in a future report.

Introduction

The mandate of the Department of Justice is to promote safe communities, social and economic order, and fair and just relations through the operation of an independent, impartial, and effective justice system that upholds the rule of law and defines the basic legal rights of citizens.

The Department administers justice services, police services, and adult corrections in the Province. The Department also administers registry systems for corporations and local registrars[1] and regulates pensions, credit unions, and businesses.

The Government's summary financial statements show protection of persons and property expenditures of $266 million for the year ended March 31, 2001 (March 31, 2000 - $262 million). The following table shows the protection of persons and property expenditures of various government agencies.

	(in millions of dollars)	
	2001	2000
Department of Justice	$ 232	$ 229
Less expenditures by Justice for purposes other than the protection of persons and property	(14)	(14)
Saskatchewan Land Information Services Corp.	25	24
Department of Labour	13	11
Department of Municipal Affairs, Culture and Housing	---	9
Other government agencies	10	3
	$ 266	$ 262

During the year, the Department received $232 million from the General Revenue Fund to deliver its programs. The Department also earned revenues of $66 million. Information about the Department's revenues and expenditures appears in the *Public Accounts 2000-01: Volume 2: Details of Revenue and Expenditure* (2000-01 Public Accounts – Volume 2) (to view a copy of this report, see http://www.gov.sk.ca/finance/paccts).

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[1] Effective January 2001, the Information Services Corporation assumed the responsibility for administering the registry system for personal property.

The following is a list of major programs and spending as reported in the 2000-2001 Public Accounts:

	Original Estimates	Actual
	(in millions of dollars)	
Community justice	$ 81	$ 81
Adult corrections	52	60
Court services	28	30
Registry and regulatory services	6	7
Accommodation and central services	17	17
Legal services	15	15
Administration	6	6
Boards and commissions	16	16
	$ 221	$ 232

The Department is also responsible for the operations of several trust and special purpose funds and Crown agencies with years ending March 31, 2001. These include:

Correctional Facilities Industries Revolving Fund
Judges of the Provincial Court Superannuation Plan
Law Reform Commission of Saskatchewan
Office of the Rentalsman Trust Account
Provincial Mediation Board Trust Account
Office of the Public Trustee
Queen's Printer Revolving Fund
Saskatchewan Legal Aid Commission
Saskatchewan Legal Aid Commission Pension Plan
Victims' Fund

Background

To assess the performance of the Department, it is important for legislators and the public to understand the Department's goals, objectives, and the risks that it faces.

The Department has identified six goals in its 2000-2001 annual report. These goals are to:

- have safe communities;

- resolve conflicts in constructive and timely ways;
- respond to the values and needs of Aboriginal people and enhance relations with them;
- uphold the rule of law;
- protect people in vulnerable situations; and
- provide a fair and effective marketplace.

Our audit conclusions and findings

We have completed our audits of the Department of Justice, the trust and special purpose funds, and the Crown agencies listed on the previous page except for the Office of the Public Trustee. We set out our findings and recommendations for the Office of the Public Trustee later in this chapter. We report the results of the Department of Justice and its other agencies below.

In our opinion, for the year ended March 31, 2001:

- **the financial statements for the funds and agencies are reliable;**

- **the Department and its agencies had adequate rules and procedures to safeguard and control their assets, except where we report otherwise in this chapter; and**

- **the Department and its agencies complied with the authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing, except where we report otherwise in this chapter.**

We also report our assessment of the Department's annual report.

We set out our findings and recommendations for the Department under the following headings:

- System to track, enforce, and collect fines needs improvement;
- Contingency plans required;
- Internal audit needs strengthening;

- Better project management practices required; and
- Annual report needs improvement.

System to track, enforce, and collect fines needs improvement

The Department is responsible for administering the law. This responsibility includes issuing tickets (fines) for offences under various provincial and federal laws. The purpose of a fine is to deter the public from violating laws. If fines are not enforced, they will not serve as an effective deterrent. Without effective deterrents, our communities will be less safe.

The Department's systems for administering fines includes policies and procedures for:

- controlling the distribution and receipt of tickets to and from law enforcement agencies;
- ensuring the accurate and complete recording, tracking, and enforcement of tickets;
- controlling the recording and receipt of fine payments; and
- collecting unpaid fines.

The Department has adequate controls over the recording and receipt of fine payments. However, we noted weaknesses with respect to:

- the distribution and receipt of tickets;
- the recording, tracking, and enforcement of fines; and
- the collection of unpaid fines.

The distribution and receipt of tickets

The Department should follow its policies and procedures for the distribution of tickets and improve its controls for the receipt of tickets from law enforcement agencies.

The Department is responsible for administering fines for numerous offences under various provincial and federal laws. It also provides certain administrative services to other levels of government in support of their fine systems.

To administer fines, the Department needs policies and procedures for tracking the distribution and issuance of tickets. For example, it needs to know the tickets it distributes to provincial law enforcement agencies, the tickets the law enforcement agencies issue to offenders, and the tickets that the law enforcement agencies have not used. It needs this kind of information to determine if all tickets issued by law enforcement agencies are being recorded in the Department's automated fines systems.

The Department has policies and procedures for recording which law enforcement agencies received tickets. We found, however, that the Department is not consistently following its policies and procedures. For example, we examined three blocks of 100,000 tickets to determine if the Department was adequately tracking which law enforcement agencies received the tickets. We found that the Department's records did not identify which law enforcement agencies received approximately 20% of the tickets.

Also, we found that the Department does not have procedures to ensure that all issued tickets are recorded in the Department's automated fines systems. We examined one of the three 100,000 blocks of tickets from a prior year to determine how many were recorded as issued on the fines system. Of these tickets, approximately 84,000 were recorded as issued on the Department's fines systems. The Department does not know the status of the remaining 16,000 tickets.

As a result of these weaknesses, the Department is not able to ensure that all tickets issued by law enforcement agencies are recorded in its automated fines systems. This could result in lost revenue and it could undermine the deterrent effect of fines in the justice system.

1. **We recommend that the Department:**

    - **follow its established procedures for recording tickets distributed to law enforcement agencies; and**

    - **strengthen its procedures to ensure that the Department records all tickets issued by law enforcement agencies.**

The recording, tracking, and enforcement of fines

The Department needs to improve its court information system to ensure that court decisions are carried out.

Tickets received from law enforcement agencies are recorded in the Department's computer systems. The Department uses the Justice Automated Information Network (JAIN) to record all court decisions related to tickets, including the fines assessed. In addition, the Department records monetary and non-monetary fine "payments". Non-monetary payments are recorded when offenders select the fine option program alternative to pay their fines (i.e., community service).

The Department must ensure the accuracy and integrity of the information in the JAIN system to ensure court decisions are carried out. To do this, the Department must ensure that what is supposed to get recorded in the computer system is recorded, changes to the information in the system are accurate and authorized, and the information remains in the system.

The Department also uses the JAIN system to determine the amount of uncollected fines. Therefore, the Department must also ensure the accuracy and integrity of the financial information contained in the JAIN system. We found that the Department:

- does not ensure that only authorized persons have access to its system and data;
- does not ensure that every change to information in its computer system is properly authorized; and
- is unable to reconcile the uncollected fines at the beginning of the period with the uncollected fines at the end of a period when taking into consideration new fines ordered, payments received, and adjustments made during the period. For the year ended March 31, 2001, this unreconciled difference was approximately $175,000 (March 31, 2000: $336,000).

As a result, the Department does not know whether the information in its court information system is accurate or complete.

We reported this matter in our 1998 Fall Report – Volume 2. On January 4, 1999, the Standing Committee on Public Accounts (PAC) considered this matter and agreed with our recommendation.

We continue to recommend that the Department improve its procedures for ensuring the accuracy and integrity of its court information system.

The Department told us that significant work was done on the JAIN system in the current year and that a number of financial integrity issues were found and resolved. The Department also told us that it thinks it has found the problems causing the $175,000 unreconciled difference noted earlier and that it plans to improve its system in the current year to resolve the problems.

The collection of unpaid fines

The Department should improve its procedures for collecting court-ordered fines.

During the year ended March 31, 2001, the Department recorded total fine revenue of $12 million (the five year average is $11.4 million). The collection rate for tickets issued during the year is approximately 72%. In 1996, the collection rate was approximately 84%.

The Department attributes the decrease in the collection rate to the 1996 changes in the sentencing provisions of the Criminal Code. Prior to1996, offenders could settle their court ordered fines by paying the fine, by using the fine option program (i.e., community service), or by serving time in jail. After 1996, the Criminal Code eliminated the possibility that persons could be put in jail if they failed to pay their fines. For the year ended March 31, 1996, the Department received settlement of court ordered fines through the fine option program and time served of $2.4 million. For the year ended March 31, 2001 the amount was $1 million.

In 1993, the Department established the Fine Collection Review Committee (Committee) to review its fine collection program. The mandate of the Committee is to recommend options for increasing the collection of fines. The Committee did not meet during the current year to discuss or evaluate fine collection issues.

In August 1995, the Committee made sixteen recommendations. The Department has implemented a number of these recommendations that increase the likelihood that fines will be paid. For example, it has allowed offenders to pay fines by credit or debit card, partnering with Saskatchewan Government Insurance (SGI) to prevent offenders from renewing their drivers' licenses if they have unpaid fines, and it has assigned unpaid fines to collection agencies.

The Department told us that it has pursued, but has not fully achieved, a number of significant recommendations. These include:

- developing comprehensive, accurate financial reports so that management can compare actual collections with expected collections;
- using the driver licence non-renewal process for out-of-province persons who have not paid Saskatchewan fines (the Department has reached agreements with two provinces, but these agreements are not yet implemented); and
- making an agreement with Saskatchewan Government Insurance to refuse vehicle registration for persons with unpaid fines. This method of encouraging fine payments is used in other provinces.

The purpose of a fine is to deter the public from violating laws. If collection is not vigorously pursued, fines will not serve as an effective deterrent. Without effective deterrents, our communities will be less safe.

We reported a similar matter in our 1998 Fall Report – Volume 2. On January 4, 1999, PAC considered this matter and agreed with our recommendation and added:

Further, where possible that procedures be developed to ensure that when repeat offenders appear in the court, the sentencing judge will be informed if previous fines are unpaid.

We continue to recommend the Department should review its procedures for collecting fines including:

- implementing the recommendations of the Fine Collection Review Committee;
- establishing performance targets for fine collections and the performance measures needed to monitor progress in achieving the desired targets; and
- ensuring that when repeat offenders appear in court, the Department informs the sentencing judge of any unpaid fines.

The Department told us that it is continuing to pursue the recommendations made by the Committee and is monitoring other jurisdictions for additional options to improve its collection of fines.

Contingency plans required

The Department needs a written, tested, and approved contingency plan for its information technology (IT) systems.

The Department depends on its IT systems to carry out its programs and services. To provide continuous service, the Department must ensure its IT systems and data are available when needed. If they are not, the Department faces increased risk because of the possibility:

- it may miss commitments, need to delay decisions, and lose essential data; and
- it may face increased program and service costs and declining public confidence in the Department.

We also reported this matter in our 1997 Spring Report and 1997 Fall Report – Volume 2. On October 8, 1998, PAC considered this matter and agreed with our recommendation.

We continue to recommend that the Department should prepare a written, tested, and approved contingency plan for its IT systems.

The Department told us that it is developing IT contingency plans for all of its programs and services. The expected completion date of this project is 2004.

Internal audit needs strengthening

The Department needs to strengthen its oversight of internal audit.

The Department has a Finance and Audit Committee that is comprised of senior management. One of the Committee's responsibilities is to oversee and provide direction to the Department's internal audit. The Department has set out the mandate of internal audit. Internal audit's mandate is to audit:

- revenue generating organizations within the Department;
- organizations within the Department that maintain trust and special purpose funds;
- the administration of expenditures and programs carried out by contractors and through cost-sharing arrangements; and
- expenditures of the Department and areas covered by the statutory audit requirements of the Provincial Auditor.

The Finance and Audit Committee is to review and approve internal audit's work plans and reports. The Finance and Audit Committee did not meet between May 1999 and June 2001. As a result, the Finance and Audit Committee did not approve internal audit's plans and did not meet to discuss the reports and recommendations of internal audit and our Office.

When internal audit does not receive appropriate direction and support, its effectiveness is at risk. Internal audit resources may not be sufficient to properly address the Department's needs, audit findings may not receive the support needed for corrective action to occur, and/or audit resources may not be directed at high risk areas. An example of a high risk area is the development and implementation of new computer systems. The Department did not use its internal audit resources to help manage its risks when the Office of the Public Trustee developed and implemented its new computer system. We found significant control weaknesses in the development and implementation of this new system. We also found significant control weaknesses in the administration of the clients' financial affairs at the Office of the Public Trustee.

2. We recommend that the Department's Finance and Audit Committee hold regular meetings to:

- **direct and approve the work plans of internal audit; and**
- **review and discuss the findings of internal audit and the Provincial Auditor's Office.**

The Department told us that the Finance and Audit Committee met in June 2001 to approve internal audit's 2001-2002 work plan. The Finance and Audit Committee plans to meet again in the Fall of 2001 to review its role and mandate.

Better project management practices required

The Department needs to continually assess and consistently apply its project management practices to ensure appropriate skills, processes, and resources are used to manage its information technology (IT) projects.

The Department's agencies manage the development and implementation of new IT systems for the delivery of their programs and services. To reduce the risks of failure, the Department needs to ensure its agencies have appropriate skills, processes, and resources to manage these projects.

The Department's IT strategic plan states that the Systems Services Branch is responsible for building, enhancing, and maintaining its information technology infrastructure. The Department has policies and procedures for systems development and project management. These policies and procedures include ensuring compliance with departmental standards and methodologies and for providing quality assurance to IT projects.

We reported, in our Spring 2001 Report, that the project management practices at the Office of the Public Trustee (Office) need strengthening. We recommended that the Office get expert advice, independent of the primary contractor, to help the Office manage the project. The System Services Branch was involved in tendering, selecting the vendor, and setting up a project structure for the Office. However, during the development and implementation of the system, the Systems Services Branch did not have an experienced project manager actively involved in overseeing the management of this project.

The active involvement of an experienced project manager, independent of the primary contractor, would have helped the Office manage this project. It also would have provided the Department with the information it needed to properly oversee the project.

The Office told us that the development and implementation of its new system is nearing completion. Therefore, the Department should identify the lessons learned from this project. The Department should identify what went wrong, what should be changed to strengthen project management processes, and what needs to be done to ensure that these processes are consistently applied to future projects.

One of the Departments long-term goals is the development of an integrated criminal justice system. The purpose of this system is to replace the Department's old systems and to allow the Department to better integrate its systems and information. Strengthening its project management practices by identifying lessons learned will help the Department to ensure better practices are consistently used on all projects and will improve its ability to manage the risks of IT projects.

3. **We recommend that the Department should strengthen its project management practices by identifying the lessons learned from the Office of the Public Trustee's recent information technology project.**

4. **We recommend that the Department consistently apply its project management practices to ensure appropriate skills, processes, and resources are used to manage its information technology projects.**

The Department told us that it hired another person with project management experience on October 1, 2001.

Annual report needs improvement

The Department's annual report needs improvement.

In Chapter 1 of our 2000 Spring Report, we explain why the annual reports currently prepared by government agencies need improvement. We also provide guidance for how to improve annual reports.

We reviewed the annual report of the Department for the year ended March 31, 2001. The Department's annual report does not specifically address its key risks or explain the systems and practices it uses to manage these risks. The report should explain the key risks the Department must manage well to succeed. To assess the Department's performance, the Legislative Assembly and the public need to know how the Department is managing its key risks.

The annual report does set out the Department's overall goals, its objectives by program, and the program activities to achieve its objectives. The Department sets out activities and results by program. The Department, however, does not state whether or not it has achieved its goals. Also, the report does not set out the Department's performance measures and targets, and actual results compared to plans.

The annual report states that the Department is participating in the government–wide accountability project and that it is committed to identifying performance measures for determining and reporting on the effectiveness of its programs.

The annual report shows the Department's financial operating results. It also shows the Department's investment in capital assets, but it does not show what else it owns and owes. For example, the report does not disclose the Department's accounts receivable or financial commitments.

Public confidence in the Department's ability to meet its objectives is important to the Department's success. Public confidence will strengthen if the Department improves its annual report because strengthening accountability promotes better management.

We reported this matter in our 2000 Fall Report – Volume 3. On June 13, 2001, PAC considered this matter and agreed with our recommendation.

We continue to recommend that the Department's annual report describe:

- the key risks that it faces and its plan to manage these risks;
- the Department's performance measures and targets and actual results compared to plans; and
- what the Department owns and controls.

The Department told us that it prepares its annual report in accordance with government guidelines for preparing annual reports.

The Office of the Public Trustee

The Office of the Public Trustee for Saskatchewan (Office) administers the property and financial affairs of approximately 5,500 clients. Clients include dependent adults, infants, and estates. The Public Trustee is assisted by two Deputy Public Trustees and approximately 29 staff.

For the year ended March 31, 1999, the Office acquired and disbursed $38 million on behalf of its clients and held assets worth $136 million. Accurate numbers are not yet available for March 31, 2000 or March 31, 2001. The majority of clients' assets are held in an investment fund consisting of mostly stocks and bonds. The Office is also responsible for personal items of clients, such as real estate, vehicles, furniture, appliances, and miscellaneous items.

Clients depend on the Office to manage their financial affairs. The Office is responsible for protecting clients' assets and making financial decisions and payments on their behalf. The Office needs strong administrative systems to carry out these duties. Without strong administrative systems, the clients' assets and the administration of their financial affairs are vulnerable.

Background

The Office had to replace its computer system in 1999. Its equipment and computer programs were obsolete and could not process data after December 31, 1999.

The Office developed and implemented its new computer system in October 1999. Due in part to difficulties associated with the development of its new computer system, the Office did not properly administer clients' affairs for the year ended March 31, 2000. We reported this matter in our Spring 2001 Report.

We also reported in our Spring 2001 Report that the Office needed to improve its system acquisition controls. The Office's plan was to complete the system by December 31, 1998 for a cost of $700,000. As of March 31, 2001, the Office had spent $2.1 million.

The project is now in its last phase of development and there are no plans to make further changes to the system. The Office's estimated cost of its new system is $2.25 million.

Our audit conclusions and findings

In our Spring 2001 Report, we report that the Office needs to take corrective action promptly to properly administer its clients' affairs and to fix its computer system. At that time, the March 31, 2001 year-end had already passed. As a result, the Office was not able to act on our recommendation for the year ending March 31, 2001. Our conclusions and recommendations for corrective action that we report in our Spring 2001 Report continue to apply.

In our opinion, for the year ended March 31, 2001:

- **the Office's rules and procedures to safeguard and control clients' assets were not adequate because of the matters described below; and**

- **the Office complied with the authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except for the matters described below.**

At the time of this report, the Office can not prepare its March 31, 2000 and March 31, 2001 financial statements. As a result, we can not complete the audit of the Office for the years ended March 31, 2000 and

2001. We will report our audit conclusions and findings for these years in a future report.

We did not do specific procedures to determine if clients' assets were used inappropriately. It is not practical for us to do this work because the nature and extent of the weaknesses in the Office's processes allow errors or improper transactions to occur without detection.

We set out our findings and recommendations for the year ended March 31, 2001 under the following headings:

- administration of clients' affairs needs improvement; and
- system acquisition controls need improvement.

Since our Spring 2001 Report, the Office has acted promptly and is making progress towards addressing the matters that we reported. To ensure the Legislative Assembly and the public are kept informed, we describe the Office's progress as at October 15, 2001. We describe this progress in two ways. First, we outline the corrective action where we have evidence that it has taken place. Second, we outline the corrective action that the Office told us it has taken or is planning to take. We have not verified this information.

Administration of clients' financial affairs needs improvement

Because the Office's rules and procedures are inadequate, unauthorized access to clients' assets could occur without detection. Also, the Office did not keep reliable records showing the amounts it owed to clients and it did not keep reliable financial records. In addition, the Office did not properly control its bank account, did not properly control clients' personal assets, and could not prepare its financial statements for the year ended March 31, 2001. As a result, the Office did not properly administer clients' affairs.

We group our findings, recommendations, and the Office's progress in taking corrective action under the following headings:

- monitoring operations;

- computer access controls;
- investment earnings;
- client and financial records; and
- staff training.

Monitoring operations

For the year ended March 31, 2001, the Office's management did not receive sufficient information to monitor the effectiveness of its rules and procedures for protecting clients' assets and administering their financial affairs. Without this information, the Office cannot ensure that clients' assets are properly protected. We reported this matter for the year ended March 31, 2000 in our Spring 2001 Report. The Public Accounts Committee (PAC) considered this matter on June 13, 2001 and agreed with our recommendation.

We continue to recommend that management obtain the information to determine whether:

- its system of controls for protecting clients' assets is effective; and
- staff follow the Office's rules and procedures for administering clients' affairs.

Since our 2001 Spring Report, the Office has established additional policies and procedures including the creation of a monthly review process. The person responsible for doing the reviews is independent of administering clients' assets and payments. The purpose of the review is to provide the Public Trustee with information on whether clients' assets are correctly recorded and exist, whether payments and payees are correct, whether budgets are correctly recorded and approved, and whether files are prepared and documented in accordance with Office standards.

In addition to the monthly review process, the Office has developed some additional reports for management and staff, and it has hired a consulting firm to determine how to make it easier to get additional reports from the new system.

Computer access controls

For the year ended March 31, 2001, the Office did not have sufficient rules and procedures to limit access to its computer system and data. As a result, the unauthorized use of clients' assets could occur without detection. We reported this matter for the year ended March 31, 2000 in our Spring 2001 Report. PAC considered this matter on June 13, 2001 and agreed with our recommendation.

We continue to recommend that the Office strengthen its policies for limiting the access to its computer system and data.

The Office has assigned a person, independent of administering clients' assets and payments, who is responsible for administering access to its computer system and data.

The Office told us that it has reviewed staff access and taken steps to ensure that all access to its computer system and data is appropriate. Also, the Office told us that it has strengthened its controls over payments and that it has begun a review of all payments that were made after October 1, 1999 and that were greater than $500. This review of payments is ongoing and the Office told us that it has not found any improper payments to January 31, 2000.

Investment earnings

For the year ended March 31, 2001, the Office did not have adequate rules and procedures to ensure that clients' investment earnings were correctly recorded in clients' assets. As a result, incorrect earnings could be allocated to clients' accounts. For the year ended March 31, 2000, we discovered that the Office recorded excess earnings in clients' accounts for the period from October 1999 to February 2001. As a result of this error, the Office paid $231,000 (previously estimated and reported as $270,000) of incorrect investment earnings to former clients. The Office used money from other clients when it made these incorrect payments. Also, this error in recording of clients' investment earnings caused the Office to collect approximately $85,000 in excess administration fees from its clients. We reported this matter in our Spring 2001 Report. PAC considered this matter on June 13, 2001 and agreed with our recommendation.

We continue to recommend that the Office:

- develop rules and procedures to ensure that it correctly records clients' investment earnings and administration fees; and
- seek to recover the $231,000 (previously estimated and reported as $270,000) from former clients or from the Government's General Revenue Fund.

The Office has engaged a professional advisor to review the monthly investment distributions. It has sent letters requesting former clients to return their overpayments. To date, former clients have returned approximately $63,000.

The Office has a plan to ensure that the remaining money that it lost is returned to existing clients. Also, the Office has not started to refund administration fees to clients. The Office told us that it will refund excess administration fees to clients after its review of clients' files is complete.

Client and financial records

For the year ended March 31, 2001, the Office did not ensure that its records are reliable. For example, it did not reconcile its accounting records (i.e., general ledger), promptly reconcile its bank account for the first half of the year, or maintain accurate records of clients' assets. We reported this matter for the year ended March 31, 2000 in our Spring 2001 Report. PAC considered this matter on June 13, 2001 and agreed with our recommendation.

We continue to recommend that the Office promptly:

- prepare accurate reports of the financial and personal items owned by the clients;
- balance its general ledger; and
- reconcile its bank account.

The Office has hired a professional accounting firm to review client and financial records. Upon its recommendations, the Office has started a comprehensive review of clients' files. The file and payment reviews are an important step in helping the Office ensure that its financial and client records are reliable. The work on the file reviews is ongoing.

The file reviews have identified problems with the recording of clients' assets and the reliability of the Office's records. Also, because the Office charges administrative fees on clients' assets, the Office may have over or under charged some clients in prior years.

The Office told us that it will correct clients' records when its review of client's files is complete. The Office also told us that it has balanced its general ledger and has promptly reconciled its bank account since April 2001.

Staff training

For the year ended March 31, 2001, the Office did not provide sufficient training and guidance to staff in using the new computer system. When staff do not receive sufficient training and/or guidance in the use of a new system, the risk of errors increases. We reported this matter for the year ended March 31, 2000 in our Spring 2001 Report. PAC considered these matters on June 13, 2001 and agreed with our recommendation.

We continue to recommend that the Office:

- provide additional training to staff in using the computer system to manage the affairs of clients; and
- update the staff's procedure manual.

The Office told us that it has completed a survey of training needs and has held training sessions. The Office also told us that it plans to update its procedures manual and make it accessible to staff.

System acquisition controls need improvement

For the year ended March 31, 2001, the Office did not have adequate project management processes to manage the development and implementation of its new computer system. When project management processes are not adequate, the risks of acquiring and implementing defective computer systems increases. We reported this matter for the year ended March 31, 2000 in our Spring 2001 Report. We recommended that the Office:

- ensure that future changes to the systems requirements are properly justified;
- strengthen its processes to ensure that the contractor delivers all the approved system requirements and the Office realizes the benefits it planned to receive from the system; and
- hire an expert consultant to help strengthen its project management processes.

PAC considered this matter on June 13, 2001 and agreed with our recommendations, with one exception. They amended the third recommendation. This amendment is shown in italics.

- hire an expert consultant to help strengthen its project management processes *provided sufficient funds are available*.

The Office's primary justification for the new computer system was to replace its old system because it could not process data after December 31, 1999. The Office also identified several other benefits to support its decision to develop and implement the new computer system. These benefits included increasing the level of service provided to clients to be in accordance with the fees charged, making better financial decisions on behalf of clients, providing more timely responses to clients, and reducing costs of administering clients' affairs. To date, the Office has not set up processes to monitor and measure the realization of the benefits that it planned to receive from its new system.

We continue to make the above recommendations. Earlier in this chapter we recommend that the Department should strengthen its project management practices by identifying the lessons learned from this project. We also report that the Department has recently hired a person with project management experience for its Systems Services Branch. We think that this resource could provide the expert help the Office needs to strengthen its project management processes.

The Office told us that it has improved its processes for making and verifying changes to its computer system. The Office said that these improvements consist of providing more support to justify the changes and their costs and more extensive testing of the changes to ensure they are correctly made.

Environment and Resource Management

10

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Executive summary

The Department's 2000-01 Annual Report has improved significantly. However, the Department needs to strengthen its internal reporting, rules and procedures for payment for goods and services, and procedures for maintaining complete records of capital assets.

During the year, the Department established the Operator Certification Board. We report that the Board needs rules and procedures to ensure that it records all application fees it receives. We also report that the financial statements may not be reliable because the Board does not know whether it has recorded all application fees received.

We did an examination of the Department's systems and practices for managing forest fires at its request. The Department views its systems and practices for managing forest fires important in protecting human life, property, and natural resources. The Department spent $41 million on forest fire management in 2001.

We worked with the Department to develop the criteria to examine the Department's systems and practices for managing forest fires.

We found the Department has adequate rules and procedures for managing forest fires. We make these recommendations to help the Department improve its rules and procedures for managing forest fires.

Introduction

The Department of Environment and Resource Management (Department) is responsible for managing, enhancing, and protecting the Province's natural resources and sustaining them for future generations. Information about the Department's mandate and its organizational structure are available at the Department's website (http://www.serm.gov.sk.ca/).

For the year ended March 31, 2001, the Government's summary financial statements show environment and natural resource expenditures of $149 million. The following table shows the expenditures of government agencies for environment and natural resource.

	(in millions of dollars)
Department of Environment and Resource Management (Public Accounts 2000-01 – Volume 2)	$ 129
Deduct expenditure shown as:	
Economic development related to forests	(10)
Add expenditures incurred by:	
Saskatchewan Water Corporation	23
Centenary Capital Fund	4
Department of Agriculture and Food	3
Environment and natural resource expenditures per the Government's summary financial statements	$ 149

The Department received $129 million from the General Revenue Fund for its programs. Also, the Department collected revenue of $40 million. In addition, the Department collected revenue and incurred expenses through its special purpose funds listed below.

The following is a list of major programs and spending reported in the *Public Accounts 2000-01: Volume 2: Details of Revenue and Expenditure* (2000-01 Public Accounts – Volume 2) (to view a copy of this report, see http://www.gov.sk.ca/finance/paccts).

	Original Estimates	Actual
	(In millions of dollars)	
Forest Fire Management	$ 29	$ 41
Field Operations and Land Management	39	40
Forestry, Fish and Wildlife	22	22
Environmental Protection	11	11
Administration	13	13
Other	2	2
	$ 116	$ 129

The Department is responsible for managing the following special purpose funds:

- Commercial Revolving Fund;
- Fish and Wildlife Development Fund;
- Resource Protection and Development Revolving Fund; and
- Big Game Damage Compensation Fund.

The Department is also responsible for the Operator Certification Board, a Crown agency.

Information about the Department's total revenues and expenditures is not available in any one document. The Public Accounts 2000-01 – Volume 2 contains information about some of the Department's revenues and spending. The Department plans to include the financial statements of its special purpose funds in *The Financial Statements Compendium 2000-2001*.

Our audit conclusions and findings

This chapter contains our audit conclusions and findings for the Department and its special purpose funds for the year ended March 31, 2001 and the Operator Certification Board for the nine-month period ended March 31, 2001.

Our Office worked with Mintz & Wallace, the appointed auditor of the Operator Certification Board. We used the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors* (to view a copy of this report, see our website at http://www.auditor.sk.ca/rrd.html). We formed the following opinions.

In our opinion, for the year ended March 31, 2001 (Operator Certification Board for the nine-month period ended March 31, 2001):

- **the Department and its agency had adequate rules and procedures to safeguard and control their assets except for the matters described in this chapter;**
- **the Department and its agency complied with authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except for the matter described in this chapter relating to the Department's capital assets; and**
- **the financial statements of the Department's special purpose funds are reliable. The Operator Certification Board's financial statements may not be reliable as explained on page 265.**

In this chapter, we also include the results of our audit of the Department's rules and procedures to manage forest fires.

Internal reporting needs improvement

The Department needs better internal reports to monitor its activities.

The Department has established adequate rules and procedures to prepare internal financial reports. However, employees did not always follow the established rules and procedures to prepare internal financial reports. For example, reports did not include, even though it is required, a comparison of planned and actual results for the current period and year to date including an explanation of significant differences.

Operational reports would show the effectiveness of programs (i.e., what the Department expected to accomplish and its progress towards those expectations). Compliance reports would describe the Department's compliance with its legislative and related authorities (e.g., the law and policy manuals). The Department needs to define and document its operational and compliance reporting requirements.

We reported this matter in our 2000 Fall Report – Volume 3 and previous reports. The Standing Committee on Public Accounts (PAC) considered this matter most recently in January 1999. It concurred with our recommendations.

We continue to recommend:

- The Department should define and document its operational and compliance reporting requirements.
- The Department should follow its established rules and procedures for preparing all of its internal financial reports.

The Department told us it continues to work on defining its operational and compliance reporting needs. The Department also told us it continues to work towards preparing required internal financial reports in accordance with its established rules and procedures. In addition, the Department told us it has undertaken a project to improve its budgeting and forecasting model and that its internal staff training plans now include the importance of internal reporting and the procedures for preparing those reports.

Rules and procedures for payments need improvement

The Department needs to improve its rules and procedures to ensure that it does not pay for goods and services that it did not receive.

The Department has rules and procedures to reduce the risk of paying for goods and services that it did not receive.

The Department's rules and procedures require that the person approving the payment be different than the person purchasing or receiving the goods or services. However, employees do not always follow these directives because the Department's new financial system allows the same person to purchase, receive, and approve payment. The

Department should change its new financial management system to ensure that the new system complies with the Department's rules and procedures.

We reported this matter in our 2000 Fall Report – Volume 3. PAC considered this matter in September 2001 and concurred with our recommendation.

We continue to recommend the Department should improve its rules and procedures to ensure that it pays only for goods and services received.

The Department told us it is implementing changes to its financial management system to ensure appropriate separation between purchasing, receiving, and approving payments for goods and services received. The Department expects to implement these changes by March 31, 2002.

Complete capital assets records needed

The Department needs better rules and procedures to safeguard and control its capital assets (equipment, furniture, and fixtures) and to report on them publicly.

Section 640 of the Provincial Comptroller's Financial Administration Manual provides guidance to departments regarding capital assets. The manual includes guidance on how to maintain complete records of capital assets.

The Department has capital assets totalling approximately $12.2 million. The Department reconciles capital asset additions in its capital asset records to its financial records. However, the Department does not reconcile its capital asset disposals to its financial records. Also it does not reconcile its financial records in total to its capital asset records. These reconciliations are needed to ensure that all capital assets are recorded in the financial records.

The Department provides information about its capital purchases in its 2000-2001 Annual Report. However, the Annual Report does not provide any information about its total capital assets or how the Department uses its capital assets to deliver its programs.

The Department established procedures to help ensure the accuracy and completeness of its capital asset records. The Department now selects a sample of capital assets from its capital assets records and inspects those assets to ensure they exist. The Department also selects a sample of capital assets in use and agrees those assets to its capital assets records to ensure its records are complete. However, the Department does not reconcile its capital assets records to its financial records.

We reported this matter in our 2000 Fall Report – Volume 3 and previous reports. PAC considered this matter most recently in January 1999. It concurred with our recommendations.

We continue to recommend:

- **The Department should keep complete records of its capital assets.**

- **The Department should also:**

  - **periodically reconcile its capital assets records to its financial records; and**

  - **include additional information about its capital assets in its annual report.**

The Department told us it plans to complete the reconciliation of its capital assets records to the financial records by March 2002.

Annual report needs improvement

We reviewed the Department's 2000-01 Annual Report. We assessed the adequacy of the information in the report against the following criteria.

To assess performance of public sector agencies, Members of the Assembly and the public need adequate summary information about public agencies' plans and about the achievement of those plans. Annual reports can provide this information. To be good accountability documents, annual reports should describe what the public agency is all about, what it has done, where it is now, and what it plans to do. In addition, to ensure the information in the report is relevant and understandable, the annual report should be written clearly and be available promptly after the agency's year-end.

We found that the Department improved its 2000-01 Annual Report significantly. The Department's 2000-01 Annual Report clearly outlines the Department's vision, mandate, goals, objectives, and its activities to achieve its objectives. The 2000-01 Annual Report also describes the risks the Department must manage to be successful and some of the strategies it uses to do so. We think this is good step forward.

However, the Department's Annual Report needs further improvement. The Department's Annual Report needs to include key performance targets and information on whether it achieved those targets. A discussion and analysis about its performance targets would help readers assess the Department's success in achieving its objectives.

The Department's 2000-01 Annual Report provides some information about the future intentions or outlook for the Department. We think future annual reports should also include a more complete discussion of the direction the Department plans to take. Such a discussion would help readers understand how the Department intends to achieve its goals and objectives.

The Annual Report includes some financial information on the special purpose funds the Department manages. The Annual Report should include complete audited financial statements of those special purpose funds for which the Department does not prepare separate annual reports. The Annual Report should also include a discussion of the goals, key performance targets, and progress towards achieving the targets for each of these special purpose funds.

We reported this matter in our 1999 Fall Report – Volume 2. The Standing Committee on Public Accounts (PAC) considered this matter in September 2001 and concurred with our recommendation.

We continue to recommend the Department should continue to improve its annual report.

Operator Certification Board

The Operator Certification Board (Board) was established in June 2000 under *The Water Pollution Control and Water Works Regulations* (Regulations). The Board's purpose is to certify operators of water and sewage works. The Minister of Environment and Resource Management appointed three directors to operate the Board. The Board began operations on July 21, 2000.

For the nine-month period ending March 31, 2001, the Board's financial statements show revenues of $24,000 and net income of $9,000. The Board held assets of $10,000 at March 31, 2001.

Board needs adequate rules and procedures over revenue

The Board needs to establish rules and procedures to ensure that it records all the revenue it receives.

The Board does not have adequate rules and procedures to ensure that it records all the revenue it receives. The Board employs only one person to keep its financial books and records. In a small organization, it is often impossible to have adequate segregation of incompatible functions. Segregation of functions helps to ensure that no one person is in a position to perpetrate and conceal errors or frauds. To reduce the risk of errors and frauds occurring without timely detection, small organizations often establish other control procedures to compensate for the lack of segregation of functions.

Currently, the Board receives and records application fees from waterworks operators applying for certification. The Board's administrator receives the operators' applications with the appropriate application fees, records the application fees, deposits the fees, reconciles the bank account, and prepares financial reports. We think the Board should also have other rules and procedures, e.g., pre-numbered application forms and/or certificates, or a written contract with the Department, to receive and record all revenue to compensate for the lack of segregation of functions in its financial management system.

The Board recorded application fees of $9,000 from operators. However, we are unable to determine whether the Board recorded all application fees it received.

1. **We recommend that the Board establish adequate rules and procedures to ensure it records all the revenue it receives.**

The Board told us it plans to develop appropriate procedures to ensure that it records all revenue that it receives.

Reliability of the financial statements

The Board's financial statements for the nine-month period ended March 31, 2001 may not be reliable.

As explained above, the Board did not have adequate rules and procedures to ensure that it records all the revenue it receives. As a result, we could not determine whether the Board had recorded all revenue in its financial statements for the period ended March 31, 2001.

Forest Fire Management

Background

Under *The Prairie and Forest Fire Act, 1982*, the Department is responsible for controlling and extinguishing fires that originate in a burning permit area, provincial forest, provincial park, recreation site, or vacant crown land. Burning permit areas are the provincial forest and every quarter section of land lying wholly or partly within 4.5 kilometres of the boundaries of the provincial forest including any other areas the Minister may designate. The Department is also responsible for controlling and extinguishing fires on Indian reserves pursuant to the Department of Indian Affairs and Northern Development Agreement and on the Primrose Air Weapons Range. The Department provides and coordinates forest fire management activities and policies through its Fire Management and Forest Protection Branch (FMFP) and its five EcoRegions. The Department's EcoRegion boundaries reflect the natural association of plants, humans, and other organisms together with the non-living component of the environment that are unique to the region. Three of the five EcoRegions are in the provincial forest: the West Boreal, the East Boreal and the Shield. The staff of the EcoRegions provide the day-to-day fire management activities. The FMFP provides and coordinates forest fire management activities and policies for the Department.

The Department carries out a fire prevention program. The Department detects fires through its tower system, by aircraft patrol, and through public input. The Department has 51 towers in the Saskatchewan forest. Once the Department is aware of a fire and its location, it determines what action to take. For example if a fire threatens a community, the Department dispatches an initial attack team of five trained firefighters to fight the fire. The Department has 50 initial attack teams. The EcoRegions decide whether to use water bombers, helicopters bucketing water, or aircraft dispersing fire retardant. The Department has six water bombers, six bird-dog aircraft (aircraft that lead water bombers and trackers to fire location), and six trackers that disperse fire retardant.

Most forest fires result from extremely dry conditions, lightning and/or from human actions.

The Department's meteorologist group monitors the current weather and forecasts the weather. The weather plays an important role in fire suppression. For example, wind direction and speed affect the size and intensity of fire. The meteorologist group uses the Department's 31 weather stations and 18 Environment Canada weather stations to obtain daily weather information. Fire staff use current weather information and forecast information to determine how it will fight the fire.

Significance of the audit

Forest fires are a significant risk the Department must manage. Forest fires pose a risk to human life, property, and natural resources (collectively referred to as values). Values will continue to increase in the forest with the expansion of the forest industry and with increases in the number and size of communities in the forest. The fire suppression industry acknowledges that with fire suppression success comes a further build-up of forest fuels and the risk of catastrophic forest fires. The Department is responsible for preventing, detecting, attacking, suppressing, and investigating forest fires. Without adequate rules and procedures for managing forest fires, the results can be disastrous with significant loss of values.

The Canadian provinces and territories collectively spent annually $468 million to fight 7,300 fires on average based on the last five years (1996-2000). The Department spent annually $51 million to fight 668 fires on average over each of the last five years. In 2000, the Department spent $38 million to fight 419 fires. The Department considers 2000 to be a below average year for fires.

Forest fires could also have a significant affect on the forestry industry and northern communities. Annually, forestry in Saskatchewan provides approximately 5,600 jobs and generates $888 million in exports. There are 46 northern communities in Saskatchewan with a total approximate population of 40,000.

The Department asked us to examine its systems and practices for managing forest fires. The Department views its systems and practices for managing forest fires important. Inadequate systems and practices can result in the loss of life, property, and natural resources, collectively referred to as values. Inadequate systems can also lead to unnecessary costs. We agreed to do the examination because of its significance.

Our audit objective

The objective of our audit was to determine whether the Department has appropriate rules and procedures to manage forest fires. Our audit covered the Department's rules and procedures from April 1, 2000 to August 31, 2001.

Our audit criteria

Auditors need criteria to evaluate matters they audit. Criteria are reasonable and attainable standards of performance and control against which auditors can assess the adequacy of systems and practices. The audit criteria selected are those that management can realistically expect to meet.

We developed criteria after reviewing relevant literature on managing forest fires. We discussed the criteria with the Department's management, made necessary changes, and obtained management's agreement that the criteria are reasonable and attainable.

The agreed upon criteria are that the Department should have systems and practices to ensure that:

- An adequate fire prevention program exists with clear targets for prevention (e.g. to reduce the number of human-caused fires by a specific percentage).
- Forest fire suppression including detection, initial attack, and containment of fires is focused on human life at risk, property, such as public and private properties, and natural resources (collectively referred to as values).
- Resources required for forest fire suppression reflect human life at risk and the values identified.
- Timely and effective investigation of the causes of each major fire.

Our audit work

We did our work in accordance with the standards for assurance engagements established by The Canadian Institute of Chartered Accountants. We did the procedures and tests we considered necessary to meet those standards. We also compared the Department's rules and procedures with those recommended by other forest fire protection agencies in North America and Australia.

Our audit conclusions

Overall, the Department's rules and procedures to manage forest fires are adequate.

Adequate rules and procedures for managing forest fires are important because they enable the Department to provide an appropriate level of protection for values. They also enable the Department to provide protection in a cost effective manner. The recommendations we provide below are intended to help the Department improve its rules and procedures for managing forest fires and to keep pace with changes in values, fire risks, weather, equipment, and technological changes.

Detailed audit findings

Criterion 1: The Department should have adequate systems and practices to ensure that an adequate fire prevention program exists with clear targets for prevention (e.g. to reduce the number of human-caused fires by a specific percentage).

Fires are caused by either actions of humans or lightning. Fires caused by people account for about 50% of all forest fires. People cause fires when they do not properly manage fires used to burn debris, do not extinguish campfires, or they start fires intentionally. Department statistics show that 80% of fires caused by people result from people trying to use fire to burn debris and by campfires. Knowing the cause of fires helps direct the type of prevention activities taken. Prevention activities can be public awareness through media, publications, informational meetings, and fuel treatment. Fuel treatment activities include reducing the underbrush, thinning the tree stands, and replanting trees that are more fire resistant.

We expected that the Department would have:

- documented its forest fire prevention program that includes a fuel treatment plan for areas of high values and high risks;
- established prevention targets and systems to monitor those targets;
- prevention programs targeted to those groups causing fires or are at risk of doing so;
- a system to coordinate fire prevention and fire suppression; and
- a communication strategy for educating the public about costs, lost resources, human suffering, and the number of preventable fires and what the Department is doing to lessen the effects from fire. Also, the communication strategy would include how the

public can help to prevent fires and its policy for prosecuting those responsible for fires.

The Department does not have a complete documented forest fire prevention program. The Department determines the cause of all forest fires. It uses this information to determine its prevention activities. However, the Department did not document its fuel treatment plans or targets. Other forest fire protection agencies in North America recognize the need to identify the areas of high values and high risk and establish a fuel treatment plan as part of its fire prevention program. To improve its prevention program, the Department should include a fuel treatment plan as part of its prevention program. The Department does some fuel treatment of forest areas, such as, working with communities to thin trees around a community. However, the Department did not have rules and procedures to determine when and where to use fuel treatment activities.

The Department did not always establish prevention targets and monitor those targets. The Department documents the focus of its prevention activities and general expectations for all its activities. However, the Department does not document clear measurable targets and monitor them. For example, the Department does not determine measurable targets for its advertising campaigns and if the targets were achieved. We think establishing measurable targets and monitoring them would help the Department assess its prevention activities.

The Department does not have cost-benefit analysis for all prevention activities. For example, the Department did a cost-benefit analysis for some tree-thinning projects. The Department should document costs for all prevention programs and analyze the impact on fire suppression costs. A prevention program supported by a cost-benefit analysis will help management to evaluate the success of the program. Also, the Department did not compare its planned performance with actual performance and explain significant differences. We think this comparison is important to assess the Department's prevention program.

The Department's prevention program targets human actions that cause fires. Public awareness campaigns of the Department focus on people camping in the forest or burning debris in the forest. The Department also works closely with communities experiencing a high rate of fires caused by people to prevent future fires.

The Department's communication strategy included public awareness campaigns through local newspapers, radio, and television. The campaign included how the public can help in preventing fires and who and where to call if they see a fire. Children often cause fire by playing with matches. The Department's prevention program addresses this through its Smokey the Bear program, which is an education and awareness program for school children. Also, the Department works closely with industry and communities to communicate and coordinate fire prevention activities. For example, the Department works with forest companies in developing cutting plans as part of their annual operating plan that will help to reduce the risk of fire. However, the Department's communication strategy did not include information about its policy on prosecuting those responsible for starting forest fires, information on lost resources, and human suffering. We think this information is important for the public to understand the need to prevent fires.

2. **We recommend that the Department should improve its rules and procedures for preparing and reporting on its prevention program.**

Criterion 2: The Department should have systems and practices to ensure that forest fire suppression is focused on values at risk.

The first step in forest fire management is the prevention of fires. Once fires occur, detecting, attacking and suppressing them becomes important. When and how the fires are suppressed depends on the values at risk.

We expected the Department would have:

- a comprehensive fire management policy setting out when, why and how to suppress fire; and
- rules and procedures to regularly determine the number and value of public and private properties (e.g. industrial sites, homes, mines), natural resources (e.g. forests, natural habitat), and human life at risk (collectively referred to as values at risk).

The Department has a comprehensive fire management policy. The Department has broken the forest into three protection zones: primary zone, green space zone, and a modified response zone. The protection zones are based on values at risk. For example, the Department includes all communities, mine sites, and commercially viable forest in the primary and green space zones. In these zones, the Department acts immediately to control fires during the first burning period (10:00 am on the day following detection). If the fire is not under control in the first burning period, the Department assesses the values at risk before taking further action. In the modified response zone, the Department acts only if it is possible to contain the fire within the first two burning periods. If fires are beyond control and later encroach a primary zone or green space, the Department will try to suppress the fire only if the fire poses a threat to values within the primary or green space zones. When fires are not extinguished within one or two burning periods, the Department's staff prepare a written analysis of the values at risk and the estimated costs of continuing to fight the fire. In this case, fire-fighting activities continue only if management instructs staff to continue to fight the fire. We examined the written analysis for a sample of fires and found the written analysis was appropriately completed and approved.

The Department communicates its fire management policy internally through its Fire Management and Forest Protection Branch guidelines. These guidelines describe when, why, and how to suppress fires. The guidelines are based on the protection zones listed above. The Department communicates its policy externally by providing a map of the protection zones to communities and members of the forest industry. The Department also communicates its fire management policy at meetings it holds with communities and members of the forest industry.

The Department had adequate rules and procedures for reviewing values in each of the EcoRegions. However, the Department needs to identify and record all values in the EcoRegions and rank them. For example, the Department does not identify and record all heritage sites. The Department annually updates its record of values by EcoRegion. The Department consults with forest companies to obtain their input as to the priority of the values in the forest areas under forest companies' management. Some forest fire agencies in North America do identify values at risk and maintain these values on a geographic information system (GIS). The system allows the fire-fighting staff ready access to the values in the forest along with the risks of fire in that area. These agencies then confirm the identified values with stakeholders such as communities and forest companies. GIS can help facilitate a quick review of the values at risk and the risk of fire in a specific area of the forest. A quick review helps fire-fighting agencies determine what preventive and suppression action they should take in case of fire in any specific area.

The Department has started to prepare a complete record of the values at risk.

3. **We recommend that the Department prepare a complete record of the values at risk in the forest and update that record regularly.**

The Department told us it plans to include a complete record of values at risk in a GIS model that it plans to develop in time for the 2002 fire season. The Department also told us that it plans to improve its guidelines for protecting areas with the highest values in case of multiple fires.

Criterion 3: The Department should have documented policies and procedures for determining the resources required for forest fire suppression based on the values identified.

Fire-fighting agencies' success in suppressing fires depends on the resources available and their location. To be useful, those resources must be appropriate and located near the expected fires.

We expected the Department would have an adequate system:

- to determine its fire detection and suppression capacity and would regularly assess its capacity against the needs for fire suppression;
- to determine the most cost-effective combination of resources and organizational structure for fire suppression needs;
- for identifying and managing any shortage of resources and would partner with those who have an interest in the identified values;

- to ensure it has experienced and trained senior staff to manage forest fires and appropriately trained firefighters to fight fires;
- to determine the quantity and location of initial attack resources; and
- of resource tracking to maximize the use of people and equipment.

The Department follows a fire preparedness approach. This approach allocates a predetermined level of resources to forest areas with high values and a high risk of fire. The resources include initial attack firefighters, helicopters, and fire-fighting equipment. When fires occur, these resources can attack the fire in an efficient and effective manner. The sooner a fire is attacked, the smaller the fire and the more likely it will be extinguished quickly. For major fires, the Department needs more firefighters, equipment, supplies, and aircraft.

The Department has an adequate process to determine its detection and suppression capacity. The Fire Management and Forest Protection Branch (FMFP) reviews the results of the fire season, in particular, the number of fires that are greater than 100 hectares, escaped fires, and the reason for their escape. The branch also reviews the number of escaped fires and related costs that occurred over the past few years. The branch documents its analysis of annual fire performance, which serves as the Department's support for the capacity level it needs. Some forest fire agencies in North America use computer systems to help project the most cost-effective method of fire-fighting resources needed in future fire seasons. The Department should consider using such a system to better determine its fire suppression capacity.

Also, the Department uses the annual fire review to support its requirements for resources and the organizational structure needed to suppress fires in future years. The Department's EcoRegions provide day-to-day management activities and the FMFP provides and coordinates forest fire management activities and policies. These two branches worked together effectively.

In 2000-01, the Department reviewed its fire suppression approach. This review identified that the Department's capacity to suppress fires is at risk of deteriorating rapidly because of its aging aircraft fleet. This review also identified that the Department's infrastructure (fire towers, firebases, weather stations, etc.) is not adequate and needs repair. Also, recently, structural engineers told the Department that most of the fire towers are not safe. The Department is currently reviewing its aircraft needs and alternatives for upgrading its aircraft capacity. The Department is also working on ensuring that it maintains its existing capacity to suppress fire and to ensure, if needed, it has access to additional resources to suppress fire.

The Department monitors its resource needs daily, and during the fire season, twice daily. Also, the Department has arrangements with the other provinces and the United States of America for resource sharing. The Department is a member of the Canadian Interagency Forest Fire Centre (CIFFC), a private non-profit corporation. CIFFC provides operational fire-control services, coordinates the sharing of resources within Canada, and worldwide, as well as provides management and information services to its member agencies. The Department notifies CIFFC when it has excess resources and when it needs resources. The Department also has written guidelines for obtaining additional resources locally, for example, heavy equipment, emergency firefighters, and aircraft rental.

The Department partners with others who have an interest in protecting values. For example, the Department has agreements with northern communities and the First Nations. Under those agreements, the Department provides fire-fighting training to members of those groups and can use them as firefighters when needed.

The Department adequately trains its firefighters and senior fire staff. The Department documents skills and abilities for firefighters in its guidelines and in work plans for senior fire staff. The Department requires firefighters to complete a certification program, take fire-fighting update training, and annually pass physical tests. The Department maintains a database of all training received by all firefighters, senior fire staff and management. Also, the Department is developing a succession plan for all senior fire staff and management. The Department's skills and abilities requirements, and training requirements are consistent with other fire-fighting agencies in North America.

The Department's fire experience and the existing location of infrastructures determine the location of initial attack resources. Other forest fire-fighting agencies in North America follow similar practices.

The Department has an adequate system for tracking personnel, equipment, and tools. The Department tracks all aircraft it uses constantly. Also, the Department tracks other equipment and firefighters at least twice daily during the fire season.

The Department has an adequate fire management system. The system compares actual fire management expenditures to planned expenditures with explanation of significant differences. The system also provides information on the number of fires, cost of fire-fighting to date, weather conditions and projected number of fires, and expected costs for the remainder of the fire season. At the end of the fire season, management prepares a performance report. The report provides a comparison of planned targets for fire suppression and targets achieved with reasons for significant differences.

4. **We recommend that the Department should ensure it has suitable infrastructure for detection and suppression of forest fires.**

The Department told us it is participating in a national process to develop a computer system to better determine fire suppression capacity. The Department expects the development process will take until 2003 because it needs to resolve differences in geography, fuel type, and type of aerial resources that exist in each province.

Criterion 4: The Department should have systems and practices to ensure a timely and effective investigation of the causes of each major fire.

Lightning and human actions cause fires. When fires are caused by human actions, the Department can pursue those responsible for causing the fire, seek recovery of fire-fighting costs, and target prevention activities to reduce fires caused by people in the future.

We expected the Department to have adequate systems to:

- promptly and effectively investigate all fires;
- prosecute those responsible for forest fires and recover costs of fire-fighting; and
- determine the cost of fighting each fire.

Firefighters are the first staff to reach a fire. Therefore, it is important that they preserve the site of ignition and gather evidence before the site is contaminated. The Department provides training to firefighters to identify the cause of fire, preserve the point of ignition, collect evidence, and record the evidence on the fire report. The Department refers all major fires to investigators. Based on the fire report, the regional fire manager determines whether further investigation is needed. However, the Department does not have documented guidelines describing when to do further investigations and who has the responsibility to do so.

The Department's conservation officers investigate fires. Conservation officers are trained in wildfire investigation. However, the Department does not have documented guidelines for the investigators to follow in their investigations. The investigators use material they received during training courses to do their work. When guidelines for an assignment are not documented, staff completing those assignments may use inconsistent or even inaccurate methods to arrive at their conclusions. The Department needs to establish documented guidelines for investigators to ensure that fire reports are always complete and accurate. Other fire-fighting agencies in North America have guidelines for investigators to follow when investigating fires.

The Department has the following options when it determines a person caused a fire. The Department can: charge the person under *The Prairie and Forest Fires Act, 1982* (Act) with an offence, charge the person with arson under the criminal code, seek cost recovery under the Act, issue a warning, or do nothing. The Department can also ask the accused to admit responsibility, do community service, and pay some of the costs of fighting the fire. The Department considers the facts of each investigation and decides how to deal with those responsible for the forest fire.

The Department has adequate rules and procedures for recording the costs of each fire. The Act requires that those held responsible for causing a fire shall pay the costs of controlling and extinguishing that fire. However, the Department does not have written guidance on when and how much of the cost of fire-fighting the staff should recover. The Department uses discretion in cost recovery when it determines that the person did not intentionally start the fire.

5. **We recommend that the Department should establish written guidelines for:**

   - **referring forest fires to investigators;**
   - **investigators to follow in their investigation; and**
   - **when and how much of the cost to fight fire staff should recover.**

The Department told us it has assigned one of its experienced investigators to coordinate all fire investigation. The experienced investigator will prepare written guidelines for referring forest fires to investigators, investigating fires, and for recovering fire-fighting costs. The Department also told us it expects this written guidance to be prepared before the 2002 fire season. In addition, the Department told us the experienced investigator will be responsible for providing training to fire investigators and will represent Saskatchewan on a North American Committee. The Committee is responsible to develop standards for forest fire investigation and training in North America.

Co-operation

The Department's management and staff fully co-operated with us throughout the audit. We appreciate their support and thank them.

Our plan

We will monitor the Department's actions to address our recommendations. We will report our findings in a future report.

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Executive summary

Several matters reported in this chapter pertain to financial reporting. Timely and accurate financial reporting is essential. Late and incorrect financial statements increase the risk that Members of the Legislative Assembly (MLAs) and the public will form incorrect conclusions about an organization's financial performance. Also, they increase the risk that MLAs and the public will make incorrect decisions.

The Department published incorrect financial statements for the Saskatchewan Agricultural Stabilization Fund and the Agri-Food Innovation Fund. In our opinion, transfers to these Funds are not being accounted for properly. The Canadian Institute of Chartered Accountants has begun a project to address the differences that have arisen in the interpretation and application of accounting standards concerning government transfer payments. Clarification of these standards will help to address the matters we raise in this chapter.

The Department has not submitted the Saskatchewan Agricultural Stabilization Fund's 2001 annual report and audited financial statements to the Legislative Assembly, as required by law. In addition, Saskatchewan Crop Insurance Corporation was six months late in making its 2000 Annual Report public.

We also report that the Livestock Services Revolving Fund needs to prepare accurate quarterly and annual financial statements and submit them to Treasury Board. The Prairie Agricultural Machinery Institute needs to improve controls over its bank account. The Pastures Revolving Fund needs procedures to ensure that its staff are aware of all revenues the Fund is required to collect. It also incurred a loss resulting from the actions of its employees.

We followed up on a 1999 audit of Saskatchewan Crop Insurance Corporation's claims adjusting system. We note additional steps that the corporation should take to improve the system.

Introduction

The Department of Agriculture and Food's mandate is to add value to agriculture by fostering a commercially viable, self-sufficient and sustainable Saskatchewan agriculture and food industry in partnership with industry.

Financial overview

The following table sets out the Government's total expenditures and revenues for the agricultural programs it administers through the Department and other organizations that the Government owns or controls. This information is reflected in the Government's summary financial statements for the year ended March 31, 2001.

	2001	2000
	(in millions of dollars)	
Agricultural expenditures by program:		
Crop insurance	$ 169	$ 157
Farm Land Education Tax Rebate Program	25	---
Compensation for freight rate changes	---	260
Agricultural Income Disaster Assistance (AIDA)	---	105
Farm income stability (NISA*)	47	62
Other	81	109
	$ 322	$ 693
Agricultural revenues by source:		
Federal Government	$ 108	$ 288
Producers' crop insurance premiums	54	71
Interest on loans and investments	19	29
Sales, services, fees and permits	30	30
	$ 211	$ 418

* Net Income Stabilization Account

Information about the Department's revenues and expenditures is reported in the Department's 2000-2001 Annual Report. Revenues and expenses of the Department's special purpose funds and Crown agencies are reported in the Public Accounts compendium, except for agencies under the Agricultural and Food Products Development and Marketing Council, which are reported in the Council's annual report.

Special purpose funds and Crown agencies

The Department is responsible for the following special purpose funds and Crown agencies:

	Year End
Agricultural Credit Corporation of Saskatchewan	March 31
Agricultural Implements Board	March 31
Agri-Food Equity Fund	March 31
Agri-Food Innovation Fund	March 31
Beef Development Board	March 31
Cattle Marketing Deductions Fund	March 31
Horned Cattle Fund	March 31
Livestock Services Revolving Fund	March 31
Milk Control Board	December 31
Pastures Revolving Fund	March 31
Prairie Agricultural Machinery Institute	March 31
Saskatchewan Agricultural Stabilization Fund	March 31
Saskatchewan Crop Insurance Corporation	March 31
Crop Reinsurance Fund of Saskatchewan	March 31

Crown Agencies under the Agricultural and Food Products Development and Marketing Council

Saskatchewan Alfalfa Seed Producers' Development Commission	July 31
Saskatchewan Broiler Hatching Egg Producers' Marketing Board	December 31
Saskatchewan Canola Development Commission	July 31
- Canodev Research Inc.	July 31
Chicken Farmers of Saskatchewan	December 31
Saskatchewan Egg Producers	December 31
Saskatchewan Flax Development Commission	July 31
Saskatchewan Pulse Crop Development Board	August 31
Saskatchewan Sheep Development Board	September 30
Saskatchewan Turkey Producers' Marketing Board	December 31
Sask Pork*	December 31

* In 2001, Sask Pork changed its year end to July 31

Our audit conclusions and findings

This chapter contains our audit conclusions and findings for:

- the special purpose funds and Crown agencies for the fiscal years ending between April 1, 2000 and March 31, 2001, except for the following. Our audit of Agri-Food Equity Fund is not complete due to established priorities. We will report the results of this audit in a future report. We reported on Milk Control Board and Sask Pork in our 2001 Spring Report.

Our Office worked with the following appointed auditors:

- KPMG
  - Saskatchewan Agricultural Stabilization Fund
  - Saskatchewan Crop Insurance Corporation
  - Crop Reinsurance Fund of Saskatchewan

- PricewaterhouseCoopers
  - Agricultural Credit Corporation of Saskatchewan

We used the framework recommended by *The Report of the Task Force on Roles, Responsibilities and Duties of Auditors* (to view a copy of this report, see our website at http://www.auditor.sk.ca/rrd.html). Our Office and the appointed auditors formed the following opinions.

In our opinion, for the audits we have completed:

- **the financial statements of the Department's special purpose funds and Crown agencies are reliable except for the Saskatchewan Agricultural Stabilization Fund and the Agri-Food Innovation Fund. In KPMG's opinion, the financial statements of the Saskatchewan Agricultural Stabilization Fund are reliable.**

- **the Department and its special purpose funds and Crown agencies had adequate rules and procedures to safeguard and control their assets except where we report otherwise in this chapter.**

- **the Department and its special purpose funds and Crown agencies complied with the authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except where we report otherwise in this chapter.**

Importance of financial statements

Several matters reported in this chapter pertain to financial reporting. Good financial reporting is essential for the following reasons.

The Government faces increasing demands on its limited resources. Members of the Legislative Assembly (MLAs) and the public need useful information to understand and assess the performance of government organizations. Organizations use financial statements to demonstrate their accountability for the public resources entrusted to them and to provide information useful in evaluating their financial performance. To understand and assess performance, MLAs and the public need government organizations to follow rigorous accounting rules that report their financial results in a consistent and comparable manner. Also, they need this information in a timely manner.

When government organizations do not follow rigorous accounting rules, they increase the risk that their annual financial statements may misstate their financial results. Incorrect financial statements increase the risk that MLAs and the public will form incorrect conclusions about the organization's financial performance. Also, they increase the risk that MLAs and the public will make incorrect decisions.

In June 2001, The Canadian Institute of Chartered Accountants announced it would begin a project to address the differences that have arisen in the interpretation and application of accounting standards concerning government transfer payments. Clarification of these standards will help to address the matters we raise in this chapter concerning the reliability of the financial statements of the Saskatchewan Agricultural Stabilization Fund and the Agri-Food Innovation Fund.

Saskatchewan Agricultural Stabilization Fund

The Department administers the Saskatchewan Agricultural Stabilization Fund. The Fund reports the transactions of the following six programs.

New Crops Insurance Program
Big Game Damage Compensation Program
Waterfowl Damage Compensation Program
Agricultural Income Disaster Assistance Program (AIDA)
Unseeded Acreage Benefit Program
Canada-Saskatchewan Adjustment Program (CSAP)

The Governments of Canada and Saskatchewan agreed to share the costs of the above programs. The costs are shared equally except for AIDA and CSAP. For AIDA, Canada pays 60% of the costs and Saskatchewan pays 40% of the costs. For CSAP, Canada pays 70% of the costs and Saskatchewan pays 30% of the costs. Saskatchewan administers all the programs except AIDA. Canada administers AIDA.

The laws governing these programs and the agreements between Canada and Saskatchewan require that all money paid into the Fund for these programs can only be used for the purposes of those programs. Also, the Department must return any money received and not used to pay for program costs to Canada and Saskatchewan at the end of the programs. The Fund operates on a break-even basis except for the interest earned on advances, which the Fund is allowed to keep.

The Fund's financial statements for the year ended March 31, 2001 report revenues of $13.3 million and expenses of $8.7 million. The Fund held net assets of $31.7 million at March 31, 2001. This information is incorrect. The financial statements are not reliable as described below.

KPMG thinks the Fund's financial statements are reliable. We did not rely on KPMG's opinion. *The Provincial Auditor Act* requires us to do additional work when we are unable to rely on the reports of appointed auditors. Our additional work consisted of reviewing the agreements between Canada and Saskatchewan and discussion with the Department's management.

Reliability of the financial statements

The Fund's financial statements understate revenue and overstate the Fund's annual deficit (i.e., annual loss) for 2001 by $0.5 million. Also, the financial statements understate the Fund's liabilities (what it owes to others) by $21.8 million and overstate the Fund's net assets (surplus to date) by $21.8 million. This gives readers of the financial statements the wrong message. The message given is that expenses exceed revenue by $0.5 million and that the Fund has extra money on hand that is no longer needed to pay for future program costs. In fact, revenue is $0.5 million more than reported and the $21.8 million must be used to pay for future program costs.

The errors in the financial statements result from the Department incorrectly recording some revenue. The Department correctly records all money received from Canada. The Department records revenue equal to Canada's share of program costs. The Department records money received from Canada in excess of its share of program costs as a liability owing to Canada until the Department incurs costs under the program. This accounting follows the accounting standards of The Canadian Institute of Chartered Accountants (CICA). However, the Department incorrectly records money received from Saskatchewan. It records this money as revenue immediately regardless of when program costs are incurred.

For example, in 1999 the Fund received $140 million from Saskatchewan to pay for the AIDA program costs for 1999 and 2000. In 1999, the Department recorded the entire $140 million as revenue of the Fund. However, the Department only incurred costs of $70 million for that program in 1999. As a result, the Fund's 1999 financial statements show $70 million more revenue than expenses. In reality, $70 million was received to pay for future costs and is not revenue of 1999. In our opinion, this accounting does not follow the accounting standards of the CICA. In addition, the 2000 financial statements do not show the $70 million, received in 1999 to pay for program costs incurred in 2000, as revenue.

We reported in our 2001 Spring Report that the Fund's 2000 financial statements understated revenue by $70 million. Also the financial statements understate the Fund's liabilities (what it owes to others) by

$22.3 million and overstate the Fund's net assets (surplus to date) by $22.3 million.

As stated earlier, the Department should record money received in advance as a liability and later as revenue when program costs are incurred. Also, because the Fund operates on a break-even basis for the money received from Canada and Saskatchewan, the only net assets of the Fund should be interest earned on advances.

We also reported this matter in our 2001 Spring Report.

We continue to recommend that the Department should record money received from the General Revenue Fund (GRF) as a liability of the Saskatchewan Agricultural Stabilization Fund until it incurs the related program costs or until it returns the money to the GRF.

The Department thinks that because the Fund and the GRF are both part of the Provincial Government, any restrictions between the two cannot be considered external. Therefore, the Department thinks it is appropriate to record the money received from Canada and the GRF differently.

We disagree. We think it is irrelevant that both the Fund and the GRF are part of the Provincial Government. The shared-cost agreements between Canada and Saskatchewan restrict the use of money contributed to the Fund under those agreements for specific purposes. The GRF provided money under the agreements and until the Fund spends the money for those purposes or returns it, the Fund has a debt to the GRF.

On November 1, 2001, the Standing Committee on Public Accounts (PAC) considered this matter. It decided to postpone a decision on our recommendation pending the results of a CICA project that is examining accounting standards concerning government transfer payments.

Timely annual report required

The Farm Financial Stability Act (Act) requires the Department to table a report on the administration of the Fund and audited financial statements. To be a good accountability document, the report should describe the purpose of the Fund, how it manages its key risks, what it has done, where it is now, and what it plans to do.

The Department does not prepare a separate report on the administration of the Fund as required by the Act. Instead, some information about the Fund's programs is provided in the annual reports of the Saskatchewan Crop Insurance Corporation and the Department. We think the Department should prepare a separate annual report for the Fund that includes the audited financial statements.

The Tabling of Documents Act, 1991 required the Department to give the Fund's 2000 annual report and financial statements to the Assembly by October 27, 2000. The financial statements were provided on November 23, 2000. The Act also required the Department to give the Fund's 2001 annual report and financial statements to the Assembly by September 27, 2001. As of November 16, 2001, the annual report and financial statements for 2001 have not been provided.

1. **We recommend that the Department should prepare an appropriate annual report for the Fund.**

2. **We recommend that the Department should provide the Fund's annual report, including audited financial statements, to the Legislative Assembly by the date required by law.**

Agri-Food Innovation Fund

The Department of Agriculture and Food administers the Agri-Food Innovation Fund. The purpose of the Fund is to enhance the diversification of the agri-food industry, support research and development, and encourage the creation of economic opportunities and jobs.

The Fund's financial statements for the year ended March 31, 2001 report net financial assets of $13.7 million. This is incorrect. The net financial assets of the Fund are overstated by $8.4 million, as described below.

Reliability of the financial statements

The Fund's financial statements understate the Fund's liabilities (what it owes to others) by $8.4 million and overstate the Fund's net financial assets (surplus to date) by $8.4 million. These statements give readers the wrong message. The message given is that the Fund has extra money on hand that it can keep because it is no longer required to pay for future program costs. In fact, the Fund must either spend the $8.4 million on future program costs or return it to the General Revenue Fund (GRF).

Canada and Saskatchewan advanced money to the Fund to pay for the program costs. The laws governing the Fund and the shared-cost agreement between Canada and Saskatchewan require that all money paid into the Fund can only be used for certain stated purposes. Also, the Fund must return any unspent money to Canada and Saskatchewan at the end of the program. In other words, the Fund is designed to operate on a break-even basis except for interest income earned on advances, which it is allowed to keep. Accordingly, these advances should be recorded as liabilities (i.e., as amounts owed back to Canada and Saskatchewan) until the Fund incurs program costs. When program costs are incurred, the Fund should deduct an equal amount from liabilities and record it as revenue to offset the program costs.

The errors in the financial statements result from the Department incorrectly recording advances from Saskatchewan. The Department correctly records advances from Canada as a liability and later as revenue when it incurs program costs. This accounting follows the accounting standards of The Canadian Institute of Chartered Accountants (CICA). However, the Department incorrectly records advances from Saskatchewan as revenue even though it has not yet incurred the related program costs.

Since its inception, the Fund received $28 million in advances from the Saskatchewan GRF, which it recorded as revenue. However, to date the Fund has only incurred $19.6 million in related program costs. Therefore, it appears as if the Fund has a surplus to date of $8.4 million. In reality, the $8.4 million is not surplus to the Fund because it must either use this money to pay for future program costs or return it to the GRF. In our opinion, the Department has not followed the accounting standards of the CICA.

The Department should record money received in advance as a liability and later as revenue when programs costs are incurred. Also, because the Fund operates on a break-even basis for money received from Canada and Saskatchewan, the only net financial assets of the Fund should be interest earned on advances.

We also reported this matter in our 2001 Spring Report.

We continue to recommend that the Department should record money received from the General Revenue Fund as a liability of the Agri-Food Innovation Fund until the Fund incurs the related program costs or until it returns the money to the GRF.

The Department thinks that since the Fund and the GRF are both part of the Provincial Government, any restrictions between the two cannot be considered external. Therefore, the Department thinks it is appropriate to record the money received from Canada and the GRF differently.

We disagree. We think it is irrelevant that both the Fund and the GRF are part of the Provincial Government. The shared-cost agreement between Canada and Saskatchewan restricts the use of money contributed to the Fund under that agreement for specific purposes. The GRF provided money under the agreement and until the Fund spends the money for those purposes or returns it, the Fund has a debt to the GRF.

On November 1, 2001, the Standing Committee on Public Accounts (PAC) considered this matter. It decided to postpone a decision on our recommendation pending the results of a CICA project that is examining accounting standards concerning government transfer payments.

Pastures Revolving Fund

The Pastures Revolving Fund provides for the establishment, operation, management and maintenance of pastures, programs and services related to pasture and livestock management. It also provides programs related to developing, protecting and promoting the environmental, social, or economic use of pastures. In 2001, it had revenues of $6.3 million and expenses of $6.3 million. At March 31, 2001, it held assets of $2.8 million.

Financial management needs improvement

Effective August 1, 2000, the Revolving Fund became responsible for any revenue generated by *The Provincial Lands Act* on provincial land used for pastures. This includes revenue from oil and gas leases.

The Department's accounting staff was not aware that the Revolving Fund was entitled to this additional revenue until the end of the fiscal year. Interim financial reports did not include this additional revenue and as a result, forecast information reviewed by management was misstated by approximately $627,000. For example, the forecast for the year ending March 31, 2001 prepared in December 2000 forecasted oil and gas lease revenue to be $60,000. The final amount of revenue from oil and gas leases in 2000-01 was $687,000.

Management needs procedures to ensure that its staff are aware of all authorized revenue the Fund is responsible for collecting. Without accurate financial reports, management cannot adequately manage the Revolving Fund's operations and activities.

3. **We recommend that the Department develop procedures to ensure that its staff are aware of all authorized revenue it is responsible for collecting.**

Loss to the Crown

Section 12(e) of *The Provincial Auditor Act* requires that our office report any cases in which "there has been a deficiency or loss to the Crown through the fraud, default or mistake of any person."

During the year, the Pastures Revolving Fund compensated persons whose cattle died or were injured due to dehydration at the Meyronne community pasture. The loss and injury to cattle was the result of actions of staff and the Department of Agriculture and Food has accepted full responsibility. The total amount of compensation paid by the Fund was $219,000.

The Department has adequate written procedures for the care and handling of livestock in its community pastures. However, employees at the Meyronne community pasture did not follow those procedures. When the matter came to the attention of the Department, it terminated the employment of those employees.

Livestock Services Revolving Fund

The Department uses the Livestock Services Revolving Fund to operate the Brand Inspection Program, the Livestock Inspection Program, and the Livestock Dealer-licensing Program. The Fund also provides administrative services to other Funds.

For the year ended March 31, 2001, the Revolving Fund had revenues of $2.5 million and expenses of $2.6 million. It held assets of $0.3 million at March 31, 2001.

Financial reporting needs improvement

The Department needs to prepare and submit accurate financial statements in accordance with requirements set out in the Financial Administration Manual (FAM) issued by the Department of Finance.

Section 1010 of FAM requires the Department to prepare and submit quarterly and annual financial statements to Treasury Board. The financial statements must be prepared in the same format as the annual financial statements, i.e., on the accrual basis of accounting. This requirement reflects good financial reporting practices.

Employees of the Department did not follow the rules and procedures described in FAM to prepare financial statements. For example, the Fund's quarterly financial statements did not record all of the amounts owed by the Fund. Also, the Department did not submit the Fund's quarterly financial statements to Treasury Board.

In addition, the Fund's annual financial statements presented for audit overstated the Fund's liabilities by $203,000. The Department corrected the error.

4. **We recommend that the Department should prepare accurate quarterly and annual financial statements and submit them to Treasury Board in accordance with the requirements of the Financial Administration Manual.**

Prairie Agricultural Machinery Institute

The Prairie Agricultural Machinery Institute tests and appraises machinery, undertakes research and development projects, and publishes reports, bulletins and pamphlets related to the agriculture and food industry. For the year ended March 31, 2001, the Institute had revenues of $4.3 million and expenses of $4.3 million. It held assets of $5.2 million as at March 31, 2001.

Control of bank account required

The Institute has not adequately segregated the duties of employees who control the bank account. Segregation of duties is inadequate when an employee is put in a position to perpetrate and conceal errors or frauds in the normal course of their duties without timely detection.

We found that one employee is responsible for signing cheques, preparing and approving bank reconciliations, supervising one of the other two cheque signers, recording financial transactions, and preparing the Institute's financial reports.

5. **We recommend that the Institute should adequately segregate the duties of employees who control the bank account.**

Saskatchewan Crop Insurance Corporation

The Saskatchewan Crop Insurance Corporation (SCIC) pays grain and livestock producers for crop production failures due to weather-related and other natural perils. The Federal Government helps pay for this program. Payments to producers are made under the Canada-Saskatchewan Crop Insurance Program. The Program guarantees a minimum crop yield to agricultural producers, subject to specific insurance decisions made by each producer. Premiums are calculated to cover the risk of loss.

In 2001, SCIC held assets of $309.4 million, had revenues of $203.2 million, and had expenses of $158.3 million. SCIC's Annual Report 2001 includes its financial statements.

SCIC insured 29.4 million seeded acres and had 34,000 contracts for the 2000 crop year covering over 94,000 crops. There were 15,000 hail claims and 12,000 yield loss, reseeding, and unseeded acreage claims. SCIC incurred claim costs of $56.4 million for hail loss and $76.7 million for all other losses including yield losses.

SCIC also manages the Crop Reinsurance Fund of Saskatchewan. This Fund receives a portion of annual premiums collected by SCIC. When SCIC incurs losses, the Fund pays SCIC for part of the losses.

Timely annual report required

SCIC was six months late with its 2000 Annual Report and one month late with its 2001 Annual Report. *The Tabling of Documents Act, 1991* required SCIC to give its 2000 Annual Report to the Legislative Assembly by October 27, 2000 and its 2001 Annual Report by September 27, 2001. SCIC gave its 2000 Annual Report to the Assembly on April 27, 2001 and its 2001 Annual Report on October 25, 2001.

6. **We recommend that Saskatchewan Crop Insurance Corporation give its annual report to the Legislative Assembly by the date required by law.**

SCIC's progress toward improving its claims adjusting system

In 1998-99, we audited SCIC's systems and practices for adjusting claims. In our 1999 Spring Report, we reported that SCIC had adequate systems and practices to adjust claims fairly, quickly, and accurately. However, we made five recommendations to help SCIC improve its adjusting practices. During 2000-01, we reviewed what SCIC has done to address our recommendations. Below, we note our original recommendations and describe SCIC's progress.

On November 1, 2001, the Standing Committee on Public Accounts (PAC) considered this matter and concurred with our recommendations.

Board of directors needs to provide more direction to the Audit Division

Recommendation 1 - SCIC's Audit Division should report directly to the Board or a committee of the Board on the adequacy of rules and procedures that management uses to adjust claims. The Board should review and approve the Audit Division's work plan and resources. The Board needs to receive regular reports on the examinations and investigations carried out by the Audit Division including the work done on the adequacy of the SCIC's rules and procedures to adjust claims.

SCIC's Board of directors (Board) needs to formally approve the Audit Division's work plan.

Boards are responsible for overseeing their organizations' business. To conduct business, a board delegates responsibilities to management and expects management to be accountable for its actions. Management accounts for its actions by providing the board with information to assess management's effectiveness in carrying out its responsibilities.

We expect that in organizations that carry out diverse programs and activities, the board would receive independent assurance from its internal audit division that management operates according to the board's direction. To be independent, the audit division should report directly to the board or to a committee of the board on all of the audit division's activities, including results of examinations, investigations, and the adequacy of corrective action taken by management. The reports should also include the findings, e.g., what adjuster procedures are not being followed and the reason for audit adjustments. The Board should approve the audit division's work plan and resources. This will help the Board discharge its responsibilities.

SCIC's Board now receives and discusses the Audit Division's work plan and resources. The Board also approves the total resources for the Audit Division. However, the Board does not formally approve the Division's work plan. A formally approved plan will help the Board in evaluating the Division's performance. The Board also can ask questions if the plan is not carried out. Management told us that the Board approved the work plan but did not document this approval in the minutes.

In March 2000, SCIC's Board directed the Audit Division to report to the Board at least semi-annually. The Division reported once to the Board during the year ended March 31, 2001. Management told us that the senior audit manager is available at all Board meetings to answer questions. The Division's report to the Board includes information on the number of audits done by region and the resulting adjustment to claims in dollars. However, the report does not include the reasons for those adjustments. Also, the Division's report to the Board does not include any assurance whether SCIC's rules and procedures to adjust claims are adequate, and what corrective action, if any, is needed.

We continue to recommend that SCIC's Board of directors should formally approve the Audit Division's work plan. The Division should report to the Board of directors semi-annually as directed by the Board. Also, the Division should report directly to the Board on the adequacy of rules and procedures that management uses to adjust claims.

The Board needs better information

Recommendation 2 - SCIC's management needs to provide better information to the Board on operating divisions' plans and on performance reports showing how divisions are doing compared to what they planned.

The Board has not determined or told management its reporting needs.

Boards typically delegate to management the responsibility to prepare operating and financial plans. A board approves the plan and holds management accountable for it. The board monitors how management is progressing by receiving regular performance reports from management showing how the organization is doing compared to what was planned and written explanations of differences. To ensure a board receives the information necessary to monitor management, the board must tell management the type of information it expects and when it expects to receive it.

All operating plans are provided to the Board for discussion and approval. The Board discusses those plans, but does not formally approve them. The Board needs to do so. The Board does approve some of the operating divisions' planned resource needs. Management told us that the Board approved all operating plans but did not document this approval in the minutes.

Management regularly provides reports to the Board including:

- information on budget and actual expenses;
- crop conditions by region;
- the number of claims received by region and crop type;
- management's projection of claims for the year; and
- claim dollars paid to date by crop type.

Management's operating reports to the Board also include updates on various projects being worked on with its findings and recommendations. However, the Board does not ask for or receive a complete comparison of planned performance to actual performance with written explanations of significant differences. Planned performance should include key performance targets and resources required to accomplish those targets. For example, planned performance would include the expected number of claims and claim costs. This comparison is important for the Board to effectively oversee operations. Accountability is improved when internal and external financial reports include planned and actual results. Currently, SCIC's internal reports do not disclose all planned and actual performance.

We continue to recommend that SCIC's management should provide better information to the Board on its operating plans and on performance reports that compare actual results to the planned results.

Rules and procedures for suspicious claims improving

Recommendation 3 - SCIC should improve the guidance it gives to the claim adjusters to enable them to identify suspicious claims. SCIC should also establish written rules and procedures for investigating suspicious claims.

SCIC needs written rules and procedures for investigating suspicious claims.

To help staff identify suspicious claims, SCIC's training sessions and procedures manuals should include a description of "red flags" of suspicious claims and practices for investigating suspicious claims. These "red flags" are common warning signs or indicators that are widely used in the insurance business to help identify suspicious claims. We also expect that supervisors would regularly review adjusters' work to ensure it is completed in accordance with SCIC's established rules and procedures.

SCIC now has guidance for identifying suspicious claims. Management explained the guidance for identifying suspicious claims to claims adjusters at SCIC's 2001 spring training for adjusters. However, management provides little guidance on how to investigate suspicious claims.

SCIC continues to improve supervision of its staff. All supervisors now annually assess adjusters' work and provide coaching. In the past, supervisors attempted to review and approve all adjusters' work, resulting in delays in settling claims. Now, management has guidance for supervisors to review and approve all junior adjusters work and to review work of senior adjusters on a sample basis.

We continue to recommend that SCIC should establish written rules and procedures for investigating suspicious claims.

Better evidence of work done to adjust or verify claims required

Recommendation 4 - SCIC should ensure that adjusters leave clear evidence of work that they have done to adjust or to verify claims.

SCIC needs to ensure that adjusters leave clear evidence in the claim files of the work they have done to adjust or to verify claims.

We expect SCIC would have written policies and procedures that define the authority, responsibility and accountability for adjusting claims to ensure claims are adjusted fairly, quickly, and accurately. We expect SCIC would require its adjusters to use a checklist to ensure completion of all adjusting procedures. Also, we expect SCIC would have written rules and procedures to clarify the nature and extent of verification of prior years' (old) production.

SCIC now requires its adjusters to complete an adjuster supplementary form. This form lists procedures to be completed and serves as a reminder to ensure all procedures are completed.

However, claimants may include current year's production with old production in the same storage facility. As a result, adjusters find it difficult to determine the current year's production. The adjuster needs to know the current year's production to adjust the claim. SCIC's guidance directs adjusters to verify the accuracy of the old production in storage based on expected claim areas. Other crop agencies outside Saskatchewan verify a sample of potential claimants' old production in storage by physically measuring the grain in storage. We think SCIC should provide written guidance to adjusters as to which potential claimants and how many of them should have their old production verified.

We expect SCIC would provide staff with guidance as to when to use the global positioning system (GPS) units as a tool to measure the areas of land covered by a claim. We also expect SCIC would prepare a cost-benefit analysis for assessing the need for additional GPS units.

SCIC has adequate rules and procedures for when to use GPS units. We found SCIC has completed a cost-benefit analysis on the need for additional global positioning system (GPS) units. SCIC's analysis shows GPS hand-held units are lower in cost than the cost of measuring wheels. SCIC is now replacing measuring wheels with GPS units, as the wheels need to be replaced.

We continue to recommend that SCIC should ensure that adjusters leave clear evidence in the claim files of the work that they have done to adjust or verify claims.

Evidence of work done by auditors needs further improvement

Recommendation 5 - SCIC should ensure that auditors leave clear evidence of work that they have done to adjust or to verify claims.

The Audit Division needs to document the nature, extent and timing of claims it plans to audit.

To help SCIC's Audit Division prepare its work plan and regular reports, we expect it would document: the method used to determine the number and type of audits to do; when to do the audits; the time allotted to complete an audit; and what action to take when audits require more time. It should also document how to report audit findings and the procedures necessary to follow up audit findings to ensure corrective action is taken. We also expect the Audit Division would use a checklist to ensure all audit procedures are completed and clear evidence is left of the work done for each audit.

The Audit Division selects claims to audit based on referrals from management. Management refers to the Division those claims that it considers suspicious and/or where the claimant has a high claim loss to premium ratio. However, the Division needs to improve its written rules and procedures to determine the number and type of claims to audit; when to audit those claims; and the resources needed to complete those audits. It should also document its procedures for reporting audit findings and assessing and reporting corrective actions taken by management.

We expect SCIC's Audit Division plan would include information about the number and type of audits it plans to do and the rationale for doing them. The Division's plan should also include the resources it plans to use and when. The Division continues to improve its audit plan. The audit plan now includes the number and type of audits, when they will be done, and the percentage of the total of the Division's time that is required for those audits. The plan does not yet include the rationale for the number and type of audits planned and the average cost per audit. The plan also does not include the resources required to carry out the plan.

The Audit Division's reports to the regional managers identify areas where adjusters need improvement. Also, the Division completes a "claim information questionnaire" with claimants as means of determining if adjusters completed their work appropriately. We examined a sample of claim files audited by the Audit Division and noted that the auditors follow the policy and procedures manual. We found the Division has begun to use a checklist to ensure that all procedures are completed and auditors have begun to leave clear evidence of the work they have done to verify claims.

We continue to recommend that SCIC should ensure that auditors leave clear evidence in the claim files of the work that they have done to adjust or verify claims.

Our plans

We will continue to monitor the SCIC's actions to address our recommendations. We will report our findings, if any, in a future report. Also, we plan to work with SCIC and its appointed auditor to identify the key risks that SCIC faces. To carry out our work, we must understand the risks facing an organization. We will discuss our understanding of those risks with SCIC's management to confirm that we have identified the right risks. Then, we will publicly report those risks. It is important that the legislators and the public know the key risks facing an organization and receive information on these risks to understand and assess an organization's performance. Sharing our understanding with legislators and the public will help them better understand and assess SCIC's performance.

SCIC's management, staff, and appointed auditor gave us excellent co-operation throughout the audit. We appreciate their support and thank them.

Finance

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Executive summary

In this chapter, we report the results of the audit of the Department of Finance and the entities it controls or administers. Overall, the Department does a good job of managing its responsibilities.

However, we have concerns with the General Revenue Fund (GRF) financial statements and with the budgeting information provided in the budget Estimates.

The Department's accounting practices are not in accordance with the Canadian Institute of Chartered Accountant's accounting standards for the public sector. As a result, the GRF financial statements do not record its pension liability of $3.9 billion and its pension costs are understated by $112 million.

Also, the GRF financial statements inappropriately record an expenditure of $775 million. It is not appropriate to record the $775 million as an expenditure because the Fiscal Stabilization Fund must return the $775 million to the GRF.

We also report concerns with the budgeting information provided in the budget Estimates. For example, the Department does not include the GRF's total expected pension costs for the year in the budget Estimates. This is important because the Government uses the GRF's budgeted surplus or deficit as one of its key economic indicators.

However, in Volume 1 of our 2001 Fall Report we discuss a larger concern with the budgeting process. Our concern is that a budget focused only on the GRF does not provide sufficient information to know if the Government is living within its means because significant activity occurs outside the GRF.

Introduction

The Department of Finance (Department) helps the Government and the Legislative Assembly manage and account for public money. It controls spending from the General Revenue Fund (GRF) and ensures the GRF receives all revenue due to it. The Department prepares the Government's summary financial statements. Also, the Department prepares an annual report that includes important accountability information about its activities, goals, and challenges.

The Department of Finance:

- prepares the annual Budget Address, Estimates and Public Accounts;
- arranges Government financing, banking, investing and borrowing;
- provides policy and financial analysis to Treasury Board and Executive Council;
- develops tax policy alternatives;
- administers various tax, grant, and refund programs;
- provides economic forecasting and economic, social, and statistical data;
- administers public sector pension and benefit plans; and
- leads the Government's accountability project.

Special purpose funds and Crown agencies

The Department is responsible for the following special purpose funds and Crown agencies.

Year end December 31

Extended Health Care Plan
Extended Health Care Plan for Certain Other Employees
Municipal Employees' Pension Commission
Public Employees Deferred Salary Leave Fund
Public Employees Disability Income Fund
Public Employees Dental Fund
Public Employees Group Life Insurance Fund
Saskatchewan Pension Plan
SaskPen Properties Ltd.

Year end March 31

General Revenue Fund (GRF)
Fiscal Stabilization Fund[1]
Members of the Legislative Assembly Superannuation Plan
Public Employees Benefits Agency Revolving Fund
Public Employees Pension Plan
Public Service Superannuation Plan
Saskatchewan Pension Annuity Fund
SP Two Properties Ltd.

In addition, the Department administers the Liquor Board Superannuation Commission, the Workers' Compensation Board Superannuation Plan, and the SaskPower Supplementary Superannuation Plan (fiscal years ending December 31).

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[1] The Department does not prepare audited financial statements for this Fund. As required by *The Fiscal Stabilization Fund Act*, a schedule of transfers and accumulated balance appears in Public Accounts Volume 1.

Financial overview

The following is a list of the Department's major programs and spending:

	Original Estimates	Actual
	(in millions of dollars)	
Interest-GRF debt	677	664
Interest-Crown corporation debt	376	378
Total interest on debt	1,053	1,042
Pensions and benefits	174	168
Administration	27	30
	1,254	1,240

The following is a list of the Department's major revenue sources:

	Original Estimates	Actual
	(in millions of dollars)	
Individual Income Tax	1,247	1,255
Interest - Crown Corporations	376	378
Sales Tax	815	737
Transfers Equalization	336	175
Transfers CHST	495	552
Fuel Taxes	348	345
Corporation Taxes	589	676
Tobacco Taxes	125	122
Income - Government Entities	1,177	1,039
Motor Vehicle Fees	112	114
Other	103	157
	5,723	5,550

Key risks

It is important that Members of the Legislative Assembly (MLAs) and the public know the key risks facing a department. Also, they should receive information on these risks to understand and assess a department's performance. We think sharing our understanding of the Department's key risks with MLAs and the public will help them better understand and assess the Department's performance.

Information on how a department is managing its key risks can increase public confidence. Annual reports are often used to provide this information to MLAs and the public.

We identified the following key risks the Department must manage well to be successful. It must:

- give Treasury Board accurate and useful information to enable it to develop, manage and evaluate the Government's fiscal plan;
- publish useful planning and performance reports;
- manage the Government's debt;
- manage investments;
- collect revenues due to the Department;
- manage several government pension and benefit plans; and
- ensure designated government entities comply with Treasury Board's directives.

To identify these key risks, we reviewed *The Financial Administration Act, 1993* and other legislative authorities. We also reviewed the Estimates, the Public Accounts, the Budget Address, the Department's annual report, and prospectus documents. In addition, we discussed these risks with key Department officials.

Our audit conclusions and findings

This chapter contains our audit conclusions and findings on the Department, its special purpose funds, and Crown agencies for the fiscal years ending on or during the year to March 31, 2001, except for the SaskPower Supplementary Superannuation Plan. We are completing our work on this Plan and will report the results in a future report.

Our Office worked with Deloitte & Touche, appointed auditor for the Saskatchewan Pension Plan and the Workers' Compensation Board Superannuation Plan, and KPMG, appointed auditor for the Public

Employees' Pension Plan and the Municipal Employees' Pension Commission. We used the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors* (to view a copy of this report, see our website at http://www.auditor.sk.ca/rrd.html). Our Office, Deloitte & Touche, and KPMG formed the following opinions.

In our opinion:

- **the Department and its Crown agencies had adequate rules and procedures to safeguard and control their assets;**
- **the Department and its Crown agencies complied with authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except where we report otherwise in this chapter and for pension payments to certain retired members who return to work that we report in Chapter 8 of our 2001 Spring Report;**
- **the Government's summary financial statements included in the *Public Accounts 2000-2001 Volume 1* are reliable;**
- **the financial statements for the special purpose funds and Crown agencies listed above that were audited are reliable, except for the GRF; and**
- **the GRF financial statements included in the *Public Accounts 2000-2001 Volume 1* are reliable, except that the transfer to the Fiscal Stabilization is not properly recorded and all pension costs are not recorded.**

We also provide comments on the Department's annual report and special warrants.

Our auditor's report on the GRF financial statements

Our auditor's report on the GRF financial statements for the year ended March 31, 2001 warns readers that the financial statements do not include all of the Government's financial activities. Therefore, readers should not use the GRF statements to understand and assess the

Government's overall performance. The appropriate financial statements to use for that purpose are the Government's summary financial statements.

In addition, our auditor's report on the GRF financial statements for the year ended March 31, 2001 includes two reservations. The financial statements are significantly misstated because the GRF's pension costs and the transfer to the Fiscal Stabilization Fund are not reported properly.

The combined effects of these two reservations are as follows:

- the GRF's annual surplus for 2000-2001 reported as $58 million is understated by $663 million;
- the transfer to the Fiscal Stabilization Fund of $775 million overstates expenditures by $775 million;
- pension expenditures are understated by $112 million; and
- pension liabilities are understated by $3.9 billion, assets are understated by $775 million, and accumulated deficit is understated by $3.1 billion.

Pension costs reservation

The GRF is responsible for the liabilities of several pension funds. These liabilities are not recorded in the GRF financial statements. Therefore, the Assembly and the public are unable to properly assess pension costs because the financial statements do not include the GRF's total pension costs for the year or the unfunded pension liability. The financial statements only include the amounts the Government actually paid retired members or contributed to a pension fund that year. The effects of not properly recording pension costs are as follows:

- the GRF's surplus for 2000-2001 reported as $58 million is overstated by $112 million;
- pension expenditures are understated by $112 million; and

- pension liabilities and accumulated deficit are understated by $3.9 billion.

In March 2001, the Standing Committee on Public Accounts (PAC) considered this matter and disagreed with the recommendation, stating:

> … there are other "proper" methods of accounting in addition to the standards of the Canadian Institute of Chartered Accountants advocated by the Office of the Provincial Auditor and that the Department was accounting for the pension costs in accordance with these other standards.

The "other standards" referred to is the cash basis of accounting. We found that the cash basis for recording pension costs is not generally accepted among Canadian governments. Beside Saskatchewan, Manitoba is the only other government in Canada that publishes financial statements that do not follow The Canadian Institute of Chartered Accountants accounting standards for pensions.

1. **We recommend that the Department account for pension costs in The General Revenue Fund financial statements in accordance with the Canadian Institute of Chartered Accountants accounting standards for the public sector.**

Fiscal Stabilization Fund reservation

The GRF financial statements show a liability of $775 million owed to the Fiscal Stabilization Fund and an expenditure of $775 million for the current year. However, it is not appropriate to record the $775 million as an expenditure because the Fiscal Stabilization Fund must return the $775 million to the GRF. The substance of the transaction is that the GRF owes $775 million to the Fiscal Stabilization Fund and the Fiscal Stabilization Fund owes $775 million back to the GRF.

Instead of recording an expenditure of $775 million, the GRF financial statements should record an asset of $775 million owed from the Fiscal Stabilization Fund.

The effects of not properly reporting this asset are as follows:

- the GRF's surplus for 2000-2001 reported as $58 million is understated by $775 million;
- GRF expenditures are overstated by $775 million;
- assets are understated by $775 million; and
- accumulated deficit is overstated by $775 million.

The Fiscal Stabilization was created in April 2000. The stated purpose of this Fund is to stabilize the fiscal position of the Government from year to year. However, making transfers from one fund to another, and back again, has no effect on the Government's overall financial position. The Government's total net worth for 2001, which amounts to an accumulated deficit of $7.9 billion, is unaffected.

Therefore, the only consequence of recording this transaction in the GRF financial statements is that the actual amount of the GRF surplus has been changed to another amount chosen by the Government. This is worrisome because the Government uses the amount of the GRF's surplus or deficit as one of its key performance indicators.

2. **We recommend that the General Revenue Fund financial statements should record transfers to the Fiscal Stabilization Fund as an asset, not as an expenditure. In addition, the General Revenue Fund financial statements should record any transfers back to the General Revenue Fund as a reduction of that asset, not as revenue.**

Annual pension costs not included in Estimates

In previous reports, we reported that the Assembly and the public are unable to properly assess pension costs because the Estimates do not include the GRF's estimated total pension costs for the year. The Estimates only include the amounts the Government expects to pay retired members or contribute to a pension fund that year.

The effects of not including the GRF's total pension costs in the Estimates for the year ended March 31, 2001 are as follows:

- the GRF's budgeted surplus of $9 million is overstated by $75 million;
- budgeted operating expenditures of $5.3 billion are understated by $75 million; and
- the budgeted accumulated deficit of $7 billion is understated by $3.9 billion.

3. **We continue to recommend that the Department include the General Revenue Fund's total pension costs for the year in the Estimates.**

In March 2001, PAC considered this matter and disagreed with our recommendation.

This matter is important because the Government uses the GRF's budgeted surplus or deficit as one of its key performance indicators. If the budgeted surplus or deficit does not include the total estimated pension costs, it is difficult for the Assembly and the public to assess the Government's performance. As well, the Assembly makes decisions based on the belief that the "budget" is balanced. It might make different decisions if the budget included the correct amount of expected pension costs for the year.

In Volume 1 of our 2001 Fall Report, we discuss a more significant concern with the Government's budgeting process. We state that a budget focused only on the GRF does not provide sufficient information for the Assembly and the public to have an informed debate on issues such as the affordability of new or existing programs. For example, citing the financial results of the GRF, the Government reports that its surplus for 2001 is $58 million. However, according to the Government's summary financial statements, the real surplus for 2001 is $506 million. On page 23 of Volume 1 of our 2001 Fall Report, we recommend that the Government should publish a financial plan for the entire Government.

Annual Report

In previous reports, we recommended that the Department prepare an annual report. We are pleased to report the Department now prepares an annual report and issues it on a timely basis.

The annual report includes the Department's vision, values, and mandate. It describes the Department's main goals and the basic strategies to achieve these goals. The annual report documents whether the goals have been achieved and, in some cases, the progress made on the goals. As well, the report describes the Department's future challenges and opportunities.

Future reports could contain more specific information about performance targets and the measures used to assess the achievement of the objectives. The Department is actively working towards developing performance targets and measures as part of the Government's accountability project.

The annual report also includes financial information on the planned and actual results of the Department's operations. Future reports could contain information explaining the variances between planned and actual results.

Special warrants

The law requires us to report when a special warrant approved the payment of public money. For the year ended March 31, 2001, the Government approved the spending of $213.1 million by special warrant. It later included these special warrants in an appropriation act.

Members of the Legislative Assembly Superannuation Plan

The Members of the Legislative Assembly Superannuation Plan (Plan) receives contributions from Members and the GRF. The Department uses the contributions and investment income to pay pensions and administrative costs. In 2001, the Plan paid pensions of $2.4 million. At March 31, 2001, it held net assets of $20 million.

Law needs to be consistent

The Department needs to seek changes to *The Members of the Legislative Assembly Superannuation Act, 1979 (MLA* Act) to make its requirements for contributions consistent with Canada's *Income Tax Act*.

The Members of the Legislative Assembly defined contribution plan (plan) is registered under the Income Tax Act. However, the MLA Act is in conflict with requirements of the Income Tax Act. For example, for the plan, the Income Tax Act allows a maximum combined contribution by the member and the Government of $13,500 per year or 18% of the member's earned income if that is lower than $13,500. The MLA Act requires its defined contribution plan members and the Government to contribute in excess of the maximum.

When pension plans do not comply with the Income Tax Act they face the risk of losing their registration, resulting in immediate tax implications for their members.

We reported this matter in our 2001 Spring Report.

4. **We continue to recommend the Department should seek change to the provisions of *The Members of the Legislative Assembly Superannuation Act, 1979* to make them consistent with Canada's *Income Tax Act.***

The Department told us it is seeking legislative changes.

Spousal payments require authority

The Department paid more allowances to surviving spouses of deceased members than required by *The Members of the Legislative Assembly Superannuation Act, 1979* (Act).

We continue to recommend the Department should pay allowances to surviving spouses as required by the Act or seek changes to the Act to allow for these payments.

We reported this matter in our 2001 Spring Report and previous reports. PAC considered this matter in the past and more recently in March 2001 and concurred with our recommendation.

The Department told us it continues to seek legislative changes.

Act needs to provide direction

The Members of the Legislative Assembly Superannuation Act, 1979 needs to set out how the Department should administer profits or losses from underwriting annuities.

The law does not specify who pays for any future losses, nor does it direct the use of profits. At March 31, 2001, the accumulated profits from underwriting annuities were $150,000 (2000- $253,000, 1999 - $157,000, 1998 - $231,900, 1997 - accumulated losses of $55,950).

We continue to recommend the Department should seek changes to the law to provide direction for the handling of profits or losses from underwriting annuities.

We reported this matter in our 2001 Spring Report and previous reports. PAC considered this matter in the past and more recently in March 2001 and concurred with our recommendation.

The Department told us it continues to seek legislative changes.

Social Services

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Executive summary

The Department of Social Services is a large, complex entity that spent $579 million delivering its programs.

The Department has shown leadership in establishing effective rules and procedures for safeguarding and controlling public money for social assistance payments and programs delivered by community-based organizations (CBOs). However, for the Legislative Assembly and the public to benefit from this leadership, the Department must follow its rules and procedures.

- For social assistance payments, the Department needs to improve its compliance with its established procedures to ensure that only eligible clients receive assistance and that they receive the correct amount of assistance. For example, the Department must strengthen its verification of the continued eligibility of clients to receive assistance.
- For programs delivered by CBOs, the Department should strengthen its assessment of the CBOs' progress in achieving the Department's operational objectives. To do this, the Department needs to encourage more CBOs to submit timely performance reports.

To help the Legislative Assembly and the public to assess the Department's performance, its annual report should provide a summary of the Department's financial and operational plans, performance targets, and actual results including its financial statements.

Introduction

The Department of Social Services manages a significant amount of money for social programs. The Government's summary financial statements show "social services and assistance expenses" of $782 million for the year ended March 31, 2001 (March 31, 2000 - $785 million).

The following table shows the total Government spending for social services programs and services by agency:

	(in millions of dollars) 2001	2000
Department of Social Services	$ 579	$ 578
Department of Municipal Affairs and Housing	137	148
Department of Post-Secondary Education and Skills Training	55	49
Other Government agencies (excluding grants from the Departments of Social Services, Municipal Affairs and Housing, and Post-Secondary Education and Skills Training)	11	10
	$ 782	$ 785

The Department of Social Service's mandate is to:

- help families care for and support their members;
- provide basic income support to people in need;
- work to reduce the risks and disadvantages of poverty;
- protect children from abuse and neglect;
- provide services for youth in conflict with the law;
- promote a standard quality of daycare; and
- support independent community-based services for people with mental and physical disabilities.

The Department received $579 million from the General Revenue Fund to deliver its programs. The Department also earned revenues of $16 million.

The following is a list of major programs and spending:

	Original Estimates	Actual
	(in millions of dollars)	
Income Support	$ 338	$ 334
Family and Youth Services	86	90
Community Living	63	64
Regional Service Centres	49	51
Child Care	19	18
Accommodation and Central Services	14	14
Other	7	8
Total	$ 576	$ 579

Key risks the Department faces

It is important that legislators and the public understand the key risks facing government organizations and how those risks are managed. Sharing our understanding with legislators and the public will help them better understand and assess government organizations' performance.

We identify five key risks facing the Department. To be successful, the Department needs to:

- identify the long-term social service needs of Saskatchewan residents that fall within its mandate;
- decide the types, volumes, and standards of essential social services the Department needs to provide to meet those long-term needs, make those services available, and monitor service delivery;
- contribute to public policy decisions and influence public attitudes on people's social well-being;
- obtain sufficient resources to deliver its services; and

- ensure the Legislative Assembly and the public know whether the Department is doing the right things well.

In Chapter 22 of our 1997 Fall Report – Volume 2, we describe more fully these risks and the Department's systems and practices to manage these risks.

Our audit conclusions and findings

In our opinion, for the year ended March 31, 2001:

- **the Department had adequate rules and procedures to safeguard and control its assets except as described on pages 321 to 330; and**

- **the Department complied with the authorities governing its financial reporting, safeguarding assets, revenue raising, and spending except as described on pages 321 to 330.**

We also report our assessment of the Department's annual report on page 330.

Internal audit reports not timely

The Department needs timely reports from its internal auditor.

The internal auditor's reports provide senior management with assurance that the Department's rules and procedures are working properly to ensure that money is spent according to the law.

The internal auditor examines the following programs:

- Saskatchewan Assistance Plan (SAP);
- Saskatchewan Employment Supplement (SES); and
- Family and Youth Services Programs (i.e., Family and Youth Automated Payment (FYAP)).

The Department expects an annual audit report on each of the above programs by the end of September. We do not think that September is a timely deadline. The Department cannot make timely decisions with audit reports that are six months old. Reporting deadlines of three or four months after the March 31 year-end would provide the Department with more useful information.

For all the above programs, the internal auditor's reports were either late or not issued at all. The internal auditor reported on SAP for the year ended March 31, 2000 in October 2000. The internal auditor reported on SES for the years ended March 31, 1999 and March 31, 2000 in September 2001. We have not assessed the SES audit report because we did not receive it until after we completed our audit. We will assess the audit report during our audit of the Department for the year ended March 31, 2002. The internal auditor has not started to audit the FYAP program for the years ended March 31, 2000 or March 31, 2001.

Without timely audit reports, the Department cannot ensure it has adequate internal controls over programs to safeguard public money and to ensure that only eligible recipients receive assistance and that they receive the correct amount of assistance.

We also reported this matter in our 2000 Fall Report – Volume 3. In June 2001, the Standing Committee on Public Accounts (PAC) agreed with our recommendation.

We continue to recommend that the Department issue timely internal audit reports.

Policies and procedures need to be followed for social assistance payments

The Department needs to follow its rules and procedures to ensure that only eligible persons receive assistance and that they receive the correct amount of assistance.

The Department paid $255 million in social assistance for the year ended March 31, 2001. The Department has rules and procedures for making assistance payments. The Department also has rules and procedures to monitor how well it ensures only eligible persons receive the correct amount of assistance. Examples of its monitoring rules and procedures are:

- verifying and documenting the eligibility of recipients (e.g., living arrangements, employment status, personal income, and assets);

- periodic comparison of social insurance numbers with other provinces to ensure that a client is only collecting benefits from one province;

- matching information reported by clients to other government agencies (e.g., Canada Customs and Revenue Agency) to ensure that clients are reporting all income to case workers; and

- carrying out internal audits of social assistance payments after payments are made, compiling the audit results, and comparing the results with a pre-established acceptable error rate. Due to the nature of social assistance, errors in the amount of assistance payments are unavoidable. The Department has decided it will reconsider its procedures for paying social assistance if the results of its internal audit procedures show errors more than 4% of total amount of assistance payments. We think the 4% error rate is reasonable for social assistance payments.

The Department did not adequately follow its established rules and procedures to ensure that only eligible persons received the correct amount of assistance. It did not adequately verify and document many recipients' living arrangements, employment status, personal income, and assets.

The Department's rules and procedures include verifying each recipient's eligibility when he or she applies for assistance and at least annually after that. Twenty-five percent of the client files we examined did not contain adequate information for the Department to verify the eligibility of applicants. Application forms in these files did not contain all required information such as the recipient's assets, income, spouse, dependants, or constitutional status (i.e., status Indian). While the Department may decide to make initial payments to meet immediate client needs, it should not accept application forms until they are properly completed.

The Department's annual verification of each recipient's continued eligibility was not adequate. For many recipients, the Department relied on annual questionnaires filled out by recipients. The Department told us it viewed these recipients as low risk because they would likely not have significant changes to their eligibility for assistance. The Department did not have a consistent, comprehensive risk management process to decide which clients require closer scrutiny (e.g., which clients require a personal interview versus a mail-in questionnaire). Also, the Department often did not adequately document or verify changes to recipients' eligibility (e.g., personal assets, income, living arrangements) based on information obtained during the annual review.

The Department did not adequately document its verification of expenses (e.g., receipts, cancelled cheques) paid to, or on behalf of, recipients. These unsupported payments included utilities (13% of the files we examined), and rent (18% of the files).

Because the Department did not adequately follow its rules and procedures, it did not know that only eligible clients received assistance and that they received the correct amount of assistance. Also, because the Department did not adequately follow its rules and procedures, we are unable to determine that only eligible clients received assistance and that they received the correct amount of assistance.

We also reported this matter in our 2000 Fall Report – Volume 3. In June 2001, PAC agreed with our recommendation.

We continue to recommend that the Department follow its established procedures that ensure only eligible clients receive assistance and that they receive the correct amount of assistance.

Information technology development practices need strengthening

The Department needs to strengthen its project management practices by incorporating the lessons it learned from its recent Information Technology (IT) projects into approved project management policies and procedures. These IT projects are described in more detail in our 1999 Fall Report – Volume 2.

Without good project management practices, the experience of the IT industry shows that most new IT systems do not meet user requirements, costs are exceeded and the systems are late. To reduce these risks, organizations need policies and procedures, as set out in the Exhibit, to inform, train, and guide staff on good project management practices. Also, to ensure project teams follow approved policies and procedures, an effective project management structure needs to be set up to oversee projects.

Exhibit 1 – Project Management Policies and Procedures: Best Practices

Organizations need policies and procedures that set out a project management framework to ensure:

- Projects are approved based on reliable estimates (e.g., project benefits, cost, time required to complete the project, and project risks);
- Project products (i.e., system requirements) are clearly identified and their development assessed to ensure quality standards are met;
- Projects are effectively tracked (e.g., comparisons of budget to actual time, cost, and work completed to date) and the results consistently reported to management;
- Project risks are identified and managed;
- Project teams have appropriate skills and training;
- User groups are kept informed of progress and receive effective training in using the delivered products; and
- Project plans incorporate the lessons learned from previous projects.

The Department has made significant progress in strengthening its processes for managing IT projects. Progress includes draft policies and procedures, and the establishment of a Project Management function. This function was designed to provide project management expertise and to ensure policies are followed. However, more work needs to be done. For example, the Department:

- needs new policies and procedures to set out fully an IT project management framework for the Department; and
- should review and approve its draft policies and procedures to ensure they meet the Department's needs.

We also reported this matter in our 1999 Fall Report – Volume 2 and our 2000 Fall Report – Volume 3. In June 2001, PAC agreed with our recommendation.

We continue to recommend that the Department continue to strengthen its policies and procedures for developing and implementing new Information Technology.

Maintenance (child support) enforcement needs improvement

The Department needs to ensure its records accurately monitor the pursuit of child support.

The Department requires recipients of social assistance to pursue other means of support. It requires a custodial parent receiving assistance to pursue child support from the other parent if obtaining such support is possible. The Department reduces the amount of assistance provided to the custodial parent through the Saskatchewan Assistance Program by the amount of child support received. The Saskatchewan Employment Support Program, described later, provides income support to eligible custodial parents who receive child support.

Many of the Department's records used to monitor the pursuit of child support were not accurate. Inaccurate records impede the Department's ability to ensure recipients pursue child support.

We also reported this matter in previous years. At its January 1999 meetings, PAC agreed with our recommendation.

We continue to recommend that the Department improve its records to ensure custodial parents receiving social assistance pursue child support.

The Department told us that after March 31, 2001, it has fixed its records so that it can now adequately monitor the pursuit of child support. We will examine the Department's corrective actions next year.

Reports from Community-Based Organizations need improvement

The Department needs to ensure that Community-Based Organizations (CBOs) submit required performance reports to the Department. The Department should also perform timely reviews of the reports. As well, it should work with CBOs to establish performance measures and targets to enable the Department to assess each CBO's progress in meeting the Department's objectives.

The Department paid $60 million to over 270 CBOs that provide social services for the Department. CBOs are non-profit organizations that provide a wide range of programs to local communities for the Department. These programs include group homes, services to enable people to live in their own homes (who otherwise could not), and early childhood intervention.

Financial performance reports

Service agreements require the CBOs to provide the Department with quarterly and annual financial reports including a comparison of actual results to the budget and explanations of differences. Service agreements require CBOs to prepare their annual financial reports following the Department's Financial Reporting Guide (developed in consultation with the Institute of Chartered Accountants of Saskatchewan and our Office).

We examined the quarterly and annual financial reports of 18 CBOs. Six of the 18 CBOs submitted their quarterly financial reports late or not at all. Eight CBOs submitted their annual reports late (June 30 deadline) or not at all. Also, 11 CBOs did not prepare their financial statements following the Financial Reporting Guide.

The Department did not do a timely review of the CBOs' financial reports. It reviewed most of the reports eight to ten months after the CBOs' year-end. Late reviews of financial reports could result in the Department not taking timely corrective actions if, for example, CBOs were not spending public money for the purposes intended.

As a result of the Department not adequately following its rules and procedures, it did not know if all CBOs achieved the Department's financial accountability objectives. Also, because the Department did not adequately follow its rules and procedures, we are unable to determine if the money was used for the intended purposes.

Operational performance reports

The service agreements require the CBOs to describe their operational objectives and their policies and procedures designed to achieve those objectives. The Department visits the CBOs to periodically assess whether they are achieving the Department's objectives. The Department does not document its assessments.

The Department does not require the CBOs to have documented performance measures and targets to assess the CBOs' progress in meeting the Department's operational objectives. As a result, the Department is unable to determine if the CBOs are achieving the Department's objectives.

Also, the Department's Family and Youth CBOs service agreements are inconsistent. For example, some service agreements describe the services or activities CBOs must do to achieve the Department's objectives. Other service agreements do not specify what services or activities CBOs must do.

We also reported this matter in previous years. At its January 1999 meetings, PAC agreed with our recommendations.

We continue to recommend that the Department ensure all Community Based Organizations (CBOs) submit timely financial and operational performance reports to the Department as required by agreements.

We continue to recommend that the Department perform timely reviews on all the financial and operational performance information submitted by the CBOs.

We continue to recommend that the Department work with CBOs to establish performance measures and targets that enable the Department to assess the CBOs' progress in achieving the Department's operational objectives.

The Department informed us that it plans to review the CBO service agreements in the near future to ensure all relevant information is included.

Department needs to ensure Saskatchewan Employment Supplement payments comply with the Law

The Department needs to ensure that only eligible recipients receive the Saskatchewan Employment Supplement (SES) and that the amounts are correct.

The SES is intended to encourage low-income parents to seek and retain paid work. The SES supplements the income earned by low-income parents from wages, self-employment, and child and spousal support. Monthly payments are intended to assist low-income parents with the child-related costs of going to work and thereby increase the likelihood that they will continue to work. SES payments totalled $11.5 million (average of 7000 families) for the year ended March 31, 2001.

The Employment Supplement Regulations require applicants to have valid social insurance numbers (SIN). The Department does not ensure that applicants' for SES have valid SINs.

In addition, the Department does not adequately verify each recipient's income. Recipients report their income to the Department verbally when applying for SES and each month after acceptance to the program. The Department does not periodically obtain independent information to verify the incomes reported by recipients. For example, the Department's internal auditor could verify recipient's income by examining recipients' pay stubs or tax returns.

As a result of these weaknesses, the Department does not know if SES payments complied with the regulations. Also, because of these weaknesses, we are unable to determine if money spent under this program was used for the purposes set out in law.

1. **We recommend that the Department verify the validity of each Saskatchewan Employment Supplement applicant's social insurance numbers.**

2. **We recommend that the Department periodically verify the incomes of Saskatchewan Employment Supplement recipients.**

Our Office received the internal auditor's report for the SES program for the years ended March 31, 1999 and 2000 after we had completed the audit. We will review this report during our audit of the Department for the year ended March 31, 2002.

The Department told us that it is currently negotiating the set up of an electronic process with the Federal Government to check the validity of applicants' SIN numbers.

Annual Report needs improvement

The Department needs to improve its annual report for the year ended March 31, 2001.

The annual report should explain the Department's key risks in achieving its objectives and the controls in place to manage those risks. To assess the Department's performance, the Legislative Assembly and the public need to know how the Department is managing its key risks. We have set out what we think are the Department's key risks on page 320.

The annual report sets out the Department's operating goals and objectives and activities to achieve them. The report, however, does not describe the Department's progress in achieving its goals and objectives. Also, the report does not show the Department's performance targets and measures.

The report does not include financial statements for the Department. However, the report shows the Department's financial operating results and its investment in capital assets.

Public confidence in the Department's policies and procedures is important to the Department's success. We think public confidence would strengthen if the Department improves its annual report.

We also reported this matter in previous years. At its January 1999 meetings, PAC agreed with our recommendations, while recognizing the difficulty of setting measurable performance target indicators in a single year.

We continue to recommend that the annual report provide a summary of the Department's financial and operational plans, performance targets, and actual results.

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Education

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Executive summary

The Department is responsible for the overall quality of the Kindergarten to Grade 12 education system of Saskatchewan. Saskatchewan has about 180,000 school-aged children in this system. Each year, over $1 billion is spent on the education system by the Department and the 100 provincially-funded school divisions. To achieve its goals and those of the system, it must work with teachers, administrators and locally-elected school boards.

In this chapter, we set out the results of our examinations of the Department and the agencies that it manages. In general, the Department continues to have good processes for safeguarding public money and complying with the law. The 2001 financial statements of the three Funds and the Teachers' Superannuation Plan that the Department manages along with the 2000 financial statements of the Plan are reliable.

We note that the Department continues to make progress on areas relating to improving the reporting of its and the school divisions' performance. Also, it is actively working with school divisions and aboriginal leaders to identify and pursue options to track the movement of children between schools and the education systems. However, it has not addressed our concern about how it records and reports pension costs for teachers' pensions. Also, we report one new matter where the Department did not use the rates set by law for determining its share of capital projects (e.g., school building).

We look forward to continued progress by the Department to ensure Saskatchewan children receive a quality education.

Introduction

In this chapter, we set out:

- a brief overview of the Department of Education's role, goals and the key risks it faces; and
- the results of our 2001 audits of the Department and the funds it manages, including the results of our assessment of the Department's 1999-2000 Annual Report.

Understanding the Department

It is important that legislators and the public understand the role of the Department and the risks it faces. This helps them to assess better the Department's performance. This section briefly describes the Department's role and its goals, risks, and spending.

Role of the Department and its goals

Under *The Education Act, 1995* (Act), the Department is responsible for the overall quality of the Kindergarten to Grade 12 (K to 12) education system in Saskatchewan. Also under the Act, locally-elected boards of education and *conseils scolaires* are responsible for the administration and management of school divisions.

Specific responsibilities of the Department include developing policies and provincial curriculum, working with school divisions to deliver the curriculum, regulating independent schools and home-based education, and certifying and classifying teachers.

Directions, published in 1984, set out the Saskatchewan Goals of Education. The Goals of Education are intended to develop the intellectual, physical, emotional, spiritual, and social potential of all students in the province to the best of their abilities. Saskatchewan Education Indicators reports, issued annually, provides information on the progress towards achieving those goals. For further information on these goals and indicators, see *2000 Saskatchewan Education Indicators: Kindergarten to Grade 12* at http://www.sasked.gov.sk.ca/.

During the year, the Department continued to develop its strategic plan, *Department of Education Strategic Plan, 2000-01 to 2003-04* (the Plan). The Plan sets out the following strategic outcomes.

1. A high quality education system in which the Goals of Education are achieved.
2. Public understanding of and confidence in the school system.
3. Equitable access to and benefit from the services and programs of the education system.
4. Leadership in mediating and facilitating the variety of social and political interests, which have an impact on education.
5. Maintenance of the structural integrity, effectiveness, and efficiency of the education system.

In addition, the Department is responsible for managing three special purpose funds—the School Division Tax Loss Compensation Fund, the Learning Resources Distribution Centre Revolving Fund, and the Correspondence School Revolving Fund and one pension plan—the Teacher's Superannuation Plan.

Overview of Department spending

The 100 Saskatchewan school divisions spend over $1 billion on K to 12 education each year. Almost 70%[1] of this amount is spent on teachers' salaries. Through school grants, the Department provides a portion of the total amount and pays for teachers' pensions and benefits directly. The rest is financed primarily through property taxes.

The following is a list of major program and spending reported by the Department in the *Public Accounts 2000-2001: Volume 2: Details of Revenues and Expenditure*. (To view a copy of public accounts, see http://www.gov.sk.ca/finance/paccts). The actual amount for teachers' pensions and benefits is adjusted from the amounts reported in the Public

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[1] p. 42, Saskatchewan Education, *2000 Saskatchewan Education Indicators: Kindergarten to Grade 12*.

Accounts to reflect the actual annual costs earned of pensions earned by teachers.

	Estimates 2000/2001[2]	Actual 2000/2001
	(in millions of $)	
School Division grants (operating and capital)	$ 455.6	$ 474.9
Teachers pension and benefits	110.4	135.2
Education programs	16.8	18.3
Administration and shared services	3.6	3.8
Accommodation and central services	2.1	2.1
	$ 588.5	$ 634.3

Risks the Department faces

The environment in which the Department operates continues to change. These changes can affect the needs of students and of society and the delivery of education. Relevant characteristics of Saskatchewan's population include the number of pre-school-aged children, the age distribution of school-aged children, the number of aboriginal children (due to the option of First Nation children attending either a band school if living on a reserve or a provincially-funded school if living off a reserve), and where the children live. Other factors include socio-economic factors such as level of family income, youth crime rates, and the state of children's health.

As identified in the *2000 Saskatchewan Education Indicators: Kindergarten to Grade 12*, Saskatchewan's population as a whole continues to age. In 1999, the proportion of the population under age 20 has declined to under 30% (1971 – 42%). In 1999, the number of Saskatchewan pre-school-aged children was insufficient to replace the number of older students who are completing their schooling within the next five years. In 1996, Aboriginal peoples represented 11.4% of the province's population. The proportion of school-aged Aboriginal youth compared with the school-aged population as a whole increased by about 2% from 1991 to 1996. The Department expects these trends to continue. Also, the population continues to shift from rural to urban areas[3].

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[2] Saskatchewan Finance, *Saskatchewan Estimates 2000-01*.

[3] pp.8 – 10, *2000 Saskatchewan Education Indicators: Kindergarten to Grade 12*.

The *2000 Saskatchewan Education Indicators: Kindergarten to Grade 12* also reports increases of 20% in total personal income from 1992 to 1998 over and above inflation of 11.8% during the same period. The Report notes the percentage of Saskatchewan children living in poverty has dropped slightly to 18.6% (i.e., 48,000 children from about 20% in 1990). It also states that Saskatchewan's charge and case rates for youth crime are about double that of Canadian rates[4].

In 1998, our Office worked with the Department to identify four areas where ineffective action could limit the Department's ability to successfully carry out its mandate. The four areas are:

- ensuring that the provincial curriculum reflects the knowledge and skills that people need;
- providing leadership to ensure that the expectations of a quality education system delivered at a reasonable cost are clear and understood;
- ensuring that schools have equitable access to appropriate resources; and
- developing and implementing measures to address the diverse needs of children and youth at risk of doing poorly at school.

Our Office examines matters related to these areas. In 1999, we reported on our review of the leadership role of the Department as it relates to vulnerable children and youth. In our Spring 2001 Report, we reported on the adequacy of the Department's processes to maintain the relevance of the core curriculum.

Follow up of key risk: monitoring vulnerable students

In this section, we provide an update on a recommendation we initially made in 1999. In 1999, we encouraged the Department to take a leadership and coordinating role to improve the monitoring of the movement of vulnerable children between schools and education systems[5].

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[4] pp. 11 – 16, *2000 Saskatchewan Education Indicators: Kindergarten to Grade 12*.
[5] Chapter 2, Office of the Provincial Auditor, *1999 Fall Report – Volume 2*.

In March 2001, the Standing Committee on Public Accounts discussed and expressed support for this recommendation.

During the year, the Department accepted related recommendations made by two separate groups. In the first report entitled, *Directions for Diversity – Enhancing Supports to Children and Youth with Diverse Needs* issued in January 2000, the Saskatchewan Special Education Review Committee recommended: "That Saskatchewan Education, in partnership with boards of education, develop a provincial electronic information system that follows all children and youth".[6]

In their report entitled, *Task Force and Public Dialogue on the Role of the School: School^{PLUS} A Vision for Children and Youth*, the members recommended:

> That an ad hoc committee be struck ... to address the issue of responsibility for absenteeism follow-up ...
> That the current efforts in Region No. 4[7] to develop a public tracking system between the school divisions in the Region and schools operated by Indian Bands ... be promoted and supported; that upon successful conclusion of this pilot project, this model be extended to the entire province....[8]

The Department continued to work closely with Indian and Northern Affairs Canada in the development of policies that address accountability issues. It also continued to identify and pursue options for possible ways to track children and youth.

We encourage the Department to continue its efforts in this area.

Audit conclusions and findings

This section contains our audit conclusions and findings for the Department and for its four agencies, the School Division Tax Loss Compensation Fund, the Learning Resources Distribution Centre Revolving Fund, and the Correspondence School Revolving Fund for the fiscal year ended March 31, 2001, and the Teachers' Superannuation

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[6] p. v, Saskatchewan Education, *Directions for Diversity – Enhancing Supports to Children and Youth with Diverse Needs*, January 2000.

[7] Region 4 includes school divisions from Humboldt, Kindersley, Lanigan, Outlook, Rosetown, Saskatoon, Saskatchewan Valley and Wakaw.

[8] pp. 84 – 85, Task Force and Public Dialogue on the Role of the School; School^{Plus} A Vision for Children and Youth *Final Report to the Minister of Education Government of Saskatchewan*; February 28, 2001.

Plan (Plan) administered by the Teachers' Superannuation Commission for the fiscal year ended June 30, 2001. We also report on the June 30, 2000 financial statements of the Plan.

In our opinion:

- **the financial statements of each of the above mentioned funds for the year ended March 31, 2001 and of the Plan for the years ended June 30, 2000 and 2001 are reliable;**

- **the Department and its agencies had adequate rules and procedures to safeguard and control their assets except for matters reported in this chapter; and**

- **the Department and its agencies complied with the authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except for the matter reported in this chapter.**

We note that the Department's 1999-00 Annual Report did not improve significantly from its 1998-99 Report.

The following sections briefly set out the detailed findings for the Department.

Rate used not in accordance with regulations

The Department needs to follow approved rates when determining its share of capital projects' costs.

The 2000-01 School Grant Regulations (Regulations) establish the rate at which the Department and school divisions must share the cost of approved capital projects (e.g., school buildings).

In 2000-2001, we found two instances where the Department did not follow the rate established in the regulations to determine its share of costs of the approved capital projects. For both instances found, the Department used a rate that was higher than the rate allowed for in the Regulations. The Department later corrected the rate for one project. For the second project, it decided not to correct the rate. As a result, the Department incurred additional costs of about $240,000 without proper authority.

1. **We recommend that the Department follow the rates set out in the School Grant Regulations when determining its share of the costs of capital projects.**

Status of previous recommendations

This section briefly identifies previous recommendations, sets out the Standing Committee of Public Account's (Committee) position on each recommendation, discusses each area, and identifies key activities that the Department undertook in 2000-2001 to move towards compliance with each recommendation.

In March 2001, the Committee met and discussed the recommendations that we made in our previous reports. For the following recommendation, the Committee acknowledged that the Department was complying with Treasury Board's policy. It thought that by following that policy the Department was appropriately recording and reporting its pension costs.

We do not think Treasury Board's policy on this matter is appropriate and that its use of the policy results in recording and reporting improper amounts. Our position is consistent with the standards of the Canadian Institute of Chartered Accountants, regarding recording and reporting pension costs.

We continue to recommend that the Department work with Treasury Board to adopt an appropriate accounting policy that properly accounts for its pension costs.

In March 2001, the Committee expressed continued support for the following three recommendations. We continue to recommend that:

- the Department, working with school divisions and other stakeholders, should set public reporting requirements for school divisions' performance in achieving the Goals of Education;

- the Department, working with school divisions, should set financial reporting requirements for school divisions consistent with those recommended by The Canadian Institute of Chartered Accountants (CICA) for the public sector; and

- the Department should continue to improve the contents of its annual reports.

Proper recording of pension costs needed

The Department has not changed how it records and reports on the annual pension costs for teachers.

As previously reported, the salaries and benefits paid to teachers for services rendered include pension benefits. Pension benefits, and thus pension costs, accumulate each year that the teachers work. The Department is responsible for the pension costs of teachers. Pension costs represent about 25% of the Department's total spending of $634 million.

As previously reported in Chapter 3 of our 2000 Fall Report – Volume 3, the Department follows the accounting policy set by Treasury Board for planning and reporting the amounts related to teacher pension costs. We think that Treasury Board's policy is not appropriate. Using the policy, the Department bases its decisions (e.g., for teachers' pay) on only the amount of cash it pays out, (i.e., on the cash basis) rather than on the pension costs incurred by the Department (i.e., the pension benefits earned by teachers). The difference is significant.

If the Department reported the pension costs that it actually incurred, its 2001 expenditures for the year would have increased by $52.7 million (2000 – $31.4 million) and its liabilities would have increased slightly to $2.56 billion[9] (2000 – $2.5 billion).

As a result of using an inappropriate accounting policy, the financial records of the Department, along with the Estimates and the General Revenue Fund's financial statements, are materially misstated. Also, legislators and the public are unable to properly assess the pension costs actually incurred by the Department.

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[9] p.19, Public Accounts, 2000-01.

Management told us that it is required by Treasury Board to conform to the established accounting policies. Also, management told us that the issue of the appropriateness of the accounting policy is a matter that we should raise with the Department of Finance as opposed to its Department.

Better reporting on performance by school divisions needed

The Department continues to collect information from school divisions that is necessary to prepare the Saskatchewan Education Indicators reports. These reports focus on the progress of the K to 12 education system as a whole towards achievement of the Goals of Education. The Department generally publishes these reports annually.

The Saskatchewan Education Indicator reports do not address the performance of individual school divisions but rather the education system as a whole. The Department does not require each division to prepare this type of information for its school division. Rather, the Department is working with school divisions to encourage them to improve their reports to the public. For most divisions, this type of information is not yet available to the public. As a result, the public is missing important information to help assess if their tax dollars are well spent.

Proper financial statements for school divisions needed

In 2000, the Department approved, in principle, the new financial statement format and the implementation schedule proposed by the Saskatchewan Association of School Business Officials (SASBO). The new format reflects the recommendations of The Canadian Institute of Chartered Accountants' Public Sector Accounting Board. SASBO plans to pilot the use of the new format in selected school divisions in 2001 with the balance of the school divisions using the format in 2002. It expects to fully implement the new financial statement format by 2003. The Department, working with SASBO, intends to monitor the results of the pilot and work with SASBO to improve the financial reporting of school divisions.

Reporting on performance—Annual Report

We previously reported that the content of the Department's annual reports need improvement. The Department did not significantly change the content of its 1999-00 Annual Report from its previous annual report.

To improve its annual report as a performance report, future annual reports should include a description of:

- the key risks the Department faces;
- what the Department views as its measures of successful achievement of its strategic goals; and
- the extent to which the Department has achieved its plan including an analysis of the differences between planned and actual operational results.

Good performance reporting depends upon good planning. Management told us that it plans to strengthen its future annual reports in conjunction with the changes in reporting expected in the Government's new accountability framework initiative.

Post-Secondary Education and Skills Training

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Executive summary

In this chapter, we report on the Department of Post-Secondary Education and Skills Training and on eight agencies for which it is responsible. We report that the 2001 financial statements of each of these agencies are reliable.

In addition, we make two new recommendations and give an update on the status of our previous recommendations. These recommendations are intended to help improve the Department's controls to safeguard and control public money and to comply with the law.

The first new recommendation relates to the graduate tax credit program. This was the first year of the program since it came into effect for the 2000 calendar year. During 2000-01, the Department issued tax credits worth over $3 million to about 10,000 students. We found that the Department did not verify all of the critical information to ensure only eligible students received the tax credits. We recommend that it do so.

The second new recommendation relates to ensuring the Trustees of the Student Aid Fund receive timely financial information throughout the year. The Trustees are responsible for administering the Fund. Receipt of timely financial information will assist the Trustees in monitoring the Fund.

With respect to previous recommendations, we note that the Department is making good progress. It continued its work with others in the sector to refine its goals and those of the sector. The strategic plan for the post-secondary education and skills training sector was nearing finalization. The Department intends to report on its performance against the plan in the near future.

We look forward to continued efforts of the Department to improve management and reporting to the public.

Introduction

In this chapter, we set out:

- a brief overview of the Department's role, goals, and the key risks that it faces; and
- the results of our 2001 audits of the Department and the various funds and agencies for which it is responsible.

Understanding the Department

It is important that legislators and the public understand the role of the Department, the risks it faces, and the key control systems needed to manage those risks. This understanding helps them to assess better the Department's performance.

Role of the Department and its goals

The Department is continued under *The Department of Post-Secondary Education and Skills Training Act, 2001*. This Act came into effect on September 1, 2001.

The Department has overall responsibility for the post-secondary education and skills training system. The post-secondary system includes universities, regional colleges, SIAST, other privately- and federally-funded institutions, and career and employment services. The system also includes student financial assistance programs like student loans and bursaries and apprenticeship and trade certification.

The Department is responsible for developing and implementing policies for post-secondary education and skills training. This responsibility includes overseeing the operations of the institutions that deliver post-secondary education and skills training to ensure they meet public policy objectives. It also includes administering and regulating training and apprenticeship programs.

During the year, the Department continued to work with others in the post-secondary sector to refine its goals and those of the sector.

We encourage Members of the Legislative Assembly and the public to obtain more detailed information about the Department. Publications are available from the Department or on the Internet at http://www.sasked.gov.sk.ca/P/departmental.

Related special purpose funds and agencies

The Department is responsible for the following special purpose funds and agencies:

	Year end
Carlton Trail Regional College	June 30
Cumberland Regional College	June 30
Cypress Hills Regional College	June 30
North West Regional College	June 30
Northlands College	June 30
Parkland Regional College	June 30
Prairie West Regional College	June 30
Saskatchewan Apprenticeship and Trade Certification Commission	June 30
Saskatchewan Communications Network Corporation	March 31
Saskatchewan Institute of Applied Science and Technology (SIAST)	June 30
Southeast Regional College	June 30
Student Aid Fund	March 31
Training Completions Fund	March 31

Also, the Department has certain responsibilities for the University of Saskatchewan and the University of Regina. The universities have an April 30 year-end.

Department spending

In 2001, the Department received $528.4 million (2000 - $463.3 million) from the General Revenue Fund and spent this money on its programs. Also, the Department raised $55.1 million (2000 - $52.5 million) of revenue. Of these revenues, 97% is from the Federal Government. The Department's annual report 2000-2001 and the *Public Accounts 2000-2001: Volume 2: Details of Revenue and Expenditure* (2000-2001 Public Accounts – Volume 2) report information about the Department's revenue and expenses (to view a copy of these reports, see http://www.sasked.gov.sk.ca/P/departmental/ and http://www.gov.sk.ca/finance/paccts/).

The following is a list of major programs and spending as reported in 2000-2001 Public Accounts – Volume 2:

	Original Estimates	Actual
	(in millions of dollars)	
Administration & shared services	$ 3.5	$ 3.7
Accommodation & central services	3.8	3.7
Student support	72.7	80.7
Post-secondary education	324.4	352.3
Training programs	48.9	47.3
Career and employment services	33.5	33.1
Saskatchewan Communications Network	7.3	7.6
	$ 494.1	$ 528.4

Each special purpose fund tables separate financial statements in the Legislative Assembly each year. Each agency tables an annual report each year that contains its audited financial statements.

The following summarizes the revenues and assets held by the special purpose funds and agencies. The revenues include money provided by the Department.

Table 1

Fund or agency	2001 Total revenues	2000 Total revenues	2001 Total assets held	2000 Total assets held
	(Actual in millions of dollars)			
Regional Colleges (combined)[1]	$ 46.8	$ 52.3	$26.4	$ 29.6
Saskatchewan Apprenticeship Trade Certification Commission[2]	12.2	5.9	1.0	2.0
Saskatchewan Communications Network Corporation	8.0	8.1	2.1	2.6
SIAST	129.4	121.7	51.4	42.2
Student Aid Fund	45.6	29.0	62.2	53.9
Training Completions Fund	0.09	0.08	0.3	0.2

Source: audited financial statements

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[1] For 2001, total revenues and assets held no longer include the Saskatchewan Indian Regional College because it is no longer a crown agency.

[2] The Commission was established in 1999 and operated for nine months for the period ending June 30, 2000.

The University of Regina for its year ended April 30, 2001 held assets of $176 million (2000 - $129 million) and raised revenues of $125 million (2000 - $113 million) of which about $65 million (2000 - $56 million) came from the Department. The University of Saskatchewan for its year ended April 30, 2001 held assets of $818 million (2000 - $640 million) and raised revenues of $524 million (2000 - $428 million) of which about $244 million (2000 - $198 million) came primarily from the Department and the Department of Health.

Risks the Department faces

The environment in which the Department and post-secondary institutions operate is changing. These changes present the Department with risks and challenges.

To reduce the risks and challenges it faces, the Department needs to:

- Co-ordinate the efforts of the key post-secondary institutions to deliver post-secondary education and skills training effectively and efficiently;
- Ensure post-secondary education and skills training responds to the needs of the public and of employers; and
- Ensure reasonable access to quality education and training opportunities.

For further discussion of the Department's role, goals, and the above key risks and challenges, see Chapter 4 of our 1998 Fall Report – Volume 2.

Audit conclusions and findings

In this chapter, we report the audit conclusions and findings for the 2001 audits of the Department, of the Saskatchewan Apprenticeship and Trade Certification Commission, of the Saskatchewan Communications Network Corporation (SCN), of SIAST, of its two funds – Student Aid Fund and Training Completions Fund, and of three of its eight regional colleges – Cumberland, Cypress Hills, and Prairie West.

For SIAST, our Office carried out the audit jointly with KPMG. We also worked with the appointed auditors of the following colleges and SCN using the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors* (to view a copy of this report, see our website at http://www.auditor.sk.ca/rrd.html).

Crown agency	Appointed auditor
SCN	Hill McKillop Orr & Company
Cumberland Regional College	Neumann & Neumann
Cypress Hills Regional College	Meyers Norris Penney LLP
Prairie West Regional College	Gilchrist & Co.

Since 1998-99, we audit regional colleges on a cyclical basis. In 2001, we audited three colleges. They were Cumberland, Cypress Hills, and Prairie West. Exhibit 1 sets out our current involvement and its basis.

Exhibit 1 – Audit involvement in regional colleges

Based on the following factors, we select three out of eight colleges for audit on a cyclical basis each year. The factors are that:

- the colleges generally operate in a common environment and face similar issues.
- we have had few disagreements with the government-appointed auditors in the audits of the colleges.
- the financial accounting control systems at each college have improved over time.
- the Department helps the colleges strengthen their financial planning and reporting systems. This includes active involvement with the colleges in the implementation of the Saskatchewan Training Strategy, including the development of an accountability framework.

Also, we continue to require all College-appointed auditors to provide us with their reports. We review these reports to determine if new significant matters are identified for that College. If so, we work with the related appointed auditor on these matters.

In our opinion and in the opinion of the appointed auditors:

- **the 2001 financial statements of the Apprenticeship Trade and Certification Commission, SCN, SIAST, Student Aid Fund, Training Completion Fund, and Cumberland, Cypress Hills, and Prairie West Regional Colleges are reliable;**
- **the Department and the agencies had adequate controls to safeguard and control public money and comply with authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing and investing, except for the matters described in this chapter; and**
- **the Department and the above agencies complied with the authorities governing their activities and those of the above Funds except for the matters described in this chapter.**

Detailed findings for the Department

In this section, we make one new recommendation and provide an update on the status of three previous recommendations. The Standing Committee on Public Accounts has previously discussed and concurred with the previous recommendations.

Verifying graduate tax credits

The Department needs to verify critical information on graduate tax credit applications.

The graduate tax credit program came into effect for the 2000 calendar year. The Department administers the graduate tax credits. In February 2001, the Department issued tax credits worth over $3 million to about 10,000 students. Students can apply these tax credits against provincial income tax payable.

The Graduate Tax Credit Act, along with related regulations, set out the criteria that students must meet to be eligible to qualify for a tax credit. To receive a tax credit, students can either apply themselves or have their educational institution apply on their behalf. Most students use the latter option.

Educational institutions identify students who meet the eligibility criteria and provide the Department with their names. The Department issues tax credits to those students.

For students who apply directly to the Department, the Department requires these students to provide some information to help it verify their eligibility (e.g., original transcripts).

Verification of critical information on tax credit applications ensures only eligible students receive the tax credits in the correct amount. Sufficient and timely verification of critical information reduces the Department's risk of issuing tax credits to ineligible students.

When the program started, the Department worked with the institutions to ensure they were aware of the program's parameters. However, the Department did not have adequate processes to ensure educational institutions provided complete and accurate information. It did not carry out additional procedures to verify the accuracy of the information provided (e.g. verifying student transcripts to ensure the qualifications for graduation were met.)

The Department does not know if only eligible students received tax credits and received them in the correct amount because the Department has not verified the information provided. Also, we are unable to determine if the Department issued graduate tax credits to only eligible students because the Department has not carried out appropriate procedures.

1. **We recommend that the Department verify critical information on graduate tax credit applications.**

Status of previous recommendations

In this section, we set out previously reported recommendations that are not yet complied with and are of continued relevance. We then identify key activities that the Department has undertaken to move towards compliance with these recommendations.

We continue to recommend that the Department should:

- provide legislators and the public with a clearer description of the accountability relationships between the Department and the key provincial post-secondary institutions.
- have Cabinet approve its sector-wide plan, and then report publicly against this plan.
- continue to improve its annual reports.

Clarifying accountability relationships

An Accountability Framework for the Saskatchewan Training Strategy (December 1999) is a publicly available report from the Department. This report clearly sets out an accountability framework for the post-secondary education and skills training system. The framework applies to the goals established within the Saskatchewan Training Strategy. The report describes the Department's work to date and work necessary to implement the framework. In October 2000, the Department completed the final report of the Saskatchewan Training Strategy. It reports on the implementation of the Training Strategy.

We think the implementation of this framework will greatly assist the Department in developing a clearer description of its key accountability relationships.

We also note that the Department's planning includes work on clarifying key accountability relationships set out in the framework. This work is underway and not yet complete.

Developing a sector-wide plan and reporting on performance

During the year, the Department continued to work with its key post-secondary institutions to finalize a sector strategic plan and to set processes to implement it. At July 2001, the plan was draft and not yet publicly available. The Department advises us that once the plan is finalized, it intends to report publicly against it.

Improving annual reports

In prior years, we reported that the Department needed to improve the contents of its annual report to make it a better report on its performance.

We reviewed the Department's 2000 annual report. We noted that the Department made a number of improvements. The Report now includes a summary of achievements. These achievements relate to various goals and objectives of the Provincial Training Strategy. The Report does not, as yet, set out the Department's goals for its other sectors, such as student financial assistance and report on the results achieved for them.

We recognize that the Department is still in the process of developing its and the sector's plan. We look forward to further improvements in the Department's reporting on performance as its planning process and performance measurement process evolves.

Detailed findings for the Student Aid Fund

The Department uses the Student Aid Fund (Fund) to help students finance their education. The Fund provides students with grants, bursaries, and loans in combination with Canada Student Loans.

In 2001, the Fund had revenues of $45.6 million, including a $42.1 million transfer from the General Revenue Fund, and had expenditures of $39.6 million. At March 31, 2001, the Fund held net assets of $25.5 million.

In this section, we make one recommendation relating to the Fund and provide an update on the status of a previous recommendation.

Financial reporting to Trustees

The Trustees of the Fund (Trustees) need timely quarterly financial reports from the Department.

The Trustees are responsible for administering the Fund. To effectively monitor the activities of the Fund, the Trustees need to receive timely financial information. Timely information helps to ensure that issues are identified and appropriate corrective action can be taken in a timely manner when necessary.

The quality of the financial information the Department provided to the Trustees is adequate. However, the Department did not provide the Trustees with this information in a timely manner during the year. For the first three quarters of the year, the Trustees received the quarterly financial statements four to five months after the period to which they relate. We note the Trustees received the draft annual financial statements for the year on a timely basis.

2. **We recommend that the Department provide the Trustees with timely quarterly financial statements.**

Status of previous recommendation on verifying critical information

We continue to recommend that the Department verify critical information on student loan applications.

We have reported this matter for several years. In March 2001, the Standing Committee on Public Accounts (Committee) concurred with the above recommendation. The Committee previously concurred with the same recommendation in April 1999 and in December 1996.

The Department does not yet verify all critical information on student loan applications. By not verifying all critical information, the Department is at risk of incurring unnecessary costs and of not complying with the law.

During the year, the Department approved approximately 17,000 student loans (2000: 17,000 loans) for approximately $129 million (2000: $128 million). This includes $59 million of Saskatchewan Student Loans and $70 million of Canada Student Loans. In addition, during the year, the Department paid grants to students and incurred other costs of $38 million (2000: $34 million). These grants and other costs depend on the amount of loans awarded to students. When the Department approves loans to students in excess of the amount they are entitled, these grants and other costs also increase.

The Department must decide which applicant information to verify before approving loans and which information to verify at a later date. Sufficient and timely verification of critical information reduces the Department's risk of incurring significant additional costs and of not complying with the provisions of *The Lender-Financed Saskatchewan Student Loans Regulations*.

Verifying critical information on student loan applications ensures only eligible students receive aid and for the correct amounts. The Department must balance its costs to verify applicant information with the need to provide students with timely financial assistance.

During the audit, we noted some progress on this matter. For example, the Department audited all private vocational schools that had not been audited in the previous 12 months to verify attendance records to ensure applicants were meeting the requirement of attending 90% of their classes.

Critical information that the Department does not yet sufficiently verify includes information on: the number of dependants, single parent status, receipt of day-care allowances, amount of scholarship funds, the value and existence of vehicles, whether the applicant is a resident of the province and whether the applicant continues to meet enrolment requirements.

Because the Department does not yet sufficiently verify the above information and it is not practical for us to do so, we are unable to report the extent to which students received incorrect amounts of aid.

The Department advised us that it continues to take steps to verify additional applicant information. For the 2001-2002 school year, the Department expects to have a system in place that will enable it to confirm whether applicants continue to be enrolled with the Saskatchewan universities and SIAST.

Detailed finding for the Regional Colleges

In this section, we set out our finding relating to the audits of the Cumberland, Cypress Hills, and Prairie West Regional Colleges. We note that appointed auditors of other colleges report similar findings.

Status of previous recommendation on performance reporting

Since 1996, our Office has reported on the boards' need for better performance information. In February 1998, PAC concurred with our recommendation. We continue to recommend that the colleges improve the performance reports used by the boards of directors to monitor the colleges' performance. We note that Cumberland, Cypress Hills and Prairie West Regional Colleges need to continue to improve how they measure and report on their performance.

To measure and report on performance, the Colleges must set performance measures and targets for each of their objectives. These measures and targets should quantify what the College is to achieve and when. Once the Colleges have set these measures and targets, they should ensure they have adequate systems to track their performance against the targets. They should also report their results to their Boards, the Department, the Legislative Assembly, and the public. These performance reports should show a comparison of the targets to the actual results and explain any significant differences between planned and actual results.

We note the Colleges continue to work on identifying key performance measures and targets. This will enable the Colleges to provide their boards, the Department, the Assembly, and the public with information necessary to judge their performance.

Energy and Mines

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Executive summary

In this chapter, we report on the Department of Energy and Mines and its special purpose fund, the Oil and Gas Environmental Fund. We also describe the key risks the Department must manage in order to be successful.

The Department's vision is to achieve prosperity and economic strength from responsible energy and mineral development. The Department must manage five key risks to realize this vision. We explain these key risks so that legislators and the public can better understand and assess the Department's performance. We have not assessed the adequacy of the Department's systems and practices to address its five key risks. To be successful the Department needs to:

- promote exploration to optimize the discovery and development of energy and mineral resources in Saskatchewan;
- ensure responsible energy and mineral development while optimizing government revenues to pay for programs and services;
- ensure responsible use and delivery of energy;
- ensure the completeness and accuracy of all royalties and taxes due to the Government; and
- ensure that industry activities are conducted in a safe and environmentally responsible manner.

In this chapter, we report that the Fund had reliable financial statements and that the Department had adequate rules and procedures to safeguard and control its assets and the assets of the Fund. We also report that the Department complied with authorities except for payments to NewGrade that continue to need proper authority. We provide an update on the status of our recommendations related to the Department's payments to NewGrade.

Introduction

The Department of Energy and Mines is responsible for managing Saskatchewan's energy and mineral resources.

In 2000-2001, the Department had expenses of $19 million and collected revenue of $1,301 million. Information about the Department's revenue and expenses appears in its annual report and in the *Public Accounts 2000-01: Volume 2: Details of Revenue and Expenditure* (to view a copy of this report, see http://www.gov.sk.ca/finance/paccts).

Special purpose fund

The Department is responsible for the Oil and Gas Environment Fund (Fund). The purpose of the Fund is to provide a mechanism to clean-up abandoned wells and to respond to environmental problems associated with the exploration, development, production, and transportation of oil and gas. The Fund had revenue of $137,000 and held assets of $2.5 million as at March 31, 2001. The Fund's financial statements are included in its annual report.

Key risks the Department faces

Under *The Department of Energy and Mines Act* (Act), the Department is responsible for the exploration, development, management, and conservation of non-renewable resources and energy. To assess the Department's performance, it is important for legislators and the public to understand the Department's vision and mission and how it manages key risks.

The Department has documented its mandate, vision, guiding principles, goals, and strategic issues in its strategic plan. The Department's annual report sets out much of this information. Information about the Department and its services are also available at the Department's website (www.gov.sk.ca/enermine). However, the Department does not make public its strategic plan and how it manages key risks. We encourage the Department to provide information on its strategic plan and how it manages key risks in its annual report and/or its website.

To carry out our work, we must understand the risks facing the Department. We think sharing our understanding with the legislators and the public will help them better understand and assess the Department's performance. To identify key risks, we reviewed various departmental documents and reports. We discussed our understanding of those risks with management and confirmed we have identified the correct risks.

To be successful, the Department needs to:

- promote exploration to optimize the discovery and development of energy and mineral resources in Saskatchewan;
- ensure responsible energy and mineral development while optimizing government revenues to pay for programs and services;
- ensure responsible use and delivery of energy;
- ensure the completeness and accuracy of all royalties and taxes due to the Government; and
- ensure that industry activities are conducted in a safe and environmentally responsible manner.

The following briefly explains each of the above risks and sets out systems and practices necessary to manage those risks. We have not assessed the adequacy of the Department's systems and practices to address its key risks.

Promote exploration

Promoting exploration is essential for ensuring that the oil, gas, and mining sectors of the economy continue to grow. Exploring new areas and developing present resources allows optimization of Saskatchewan's mineral potential and encourages economic benefits in terms of jobs, income, and government revenues.

To promote exploration, the Department needs to update and improve accessibility to Saskatchewan's geoscience data. Better information makes it easier to explore and locate new deposits. The Department must maintain an adequate mapping system that assists the industry in searching for new deposits. The Department must work with the industry to establish a competitive economic and regulatory system to promote exploration in Saskatchewan. The Department must promote its programs. If the industry does not know about Saskatchewan's geological potential, the industry will look elsewhere for new mineral discoveries.

The Department is currently undertaking a new exploration development strategy that addresses this risk. The new strategy consists of projects that include promotion, enhanced geoscience, and tax reduction programs.

Responsible energy and mineral development

The Department must obtain, in a responsible manner, a fair share of the revenue from resource development for the people of Saskatchewan. At the same time, the Department must encourage continued investment and development of resources by ensuring the industry also receives a fair return on its investment. Energy and mineral resources are non-renewable. Therefore, the Department must optimize recovery of these resources given market conditions. The Department must also ensure that there is responsible use of non-renewable resources.

The Department must support research and development to enhance recovery and must ensure optimal development of energy and mineral resources. The Department must regulate and monitor the industry to ensure the industry's activities are conducted in a responsible manner. To protect the Government's interest, the Department must analyze the impact of policies, legislation, and regulations on market trends and the industry's performance.

The Department continues participation with the Saskatchewan Petroleum Research Incentive (SPRI) and the Petroleum Technology Research Centre (PTRC). SPRI and PTRC are involved in promoting expansion of enhanced oil recovery and other projects through research. The Department also plays a major role in a project to monitor the injection of carbon dioxide (CO_2) in to the Weyburn oilfield. The intent of the project is to understand more about CO_2 enhanced oil recovery and the capture of CO_2 because it is a greenhouse gas.

Responsible use and delivery of energy

The Department needs policies and programs to encourage the responsible use of energy and the efficient and effective delivery of energy services in Saskatchewan. These policies and programs must ensure the efficient use of energy by Saskatchewan consumers. The Department must also ensure that there are no market restrictions for the delivery of electricity and natural gas services.

The Department must also develop energy conservation policies. The Department must participate in research and development to reduce the environmental impact of energy consumption. For example, the Department must investigate the impact of climate change on energy production and use.

The Department continues to monitor the changing circumstances in the North American electricity industry with respect to more open and competitive markets. The Department should receive public input and provide policy advice as the electrical industry undergoes changes. The Department also examines energy use regulation and assesses options for oil and natural gas pipeline regulation in Saskatchewan.

The Department is working with the University of Regina to establish the International Test Centre for Carbon Dioxide Capture. The Department is also on the National Air Issues Co-ordinating Committee. The Committee is responsible for implementing Canada's National Action Plan on Climate Change. The Department also represents Saskatchewan in the Greenhouse Gas Emissions Reduction Trading pilot project that encourages voluntary investment in emission reduction projects. This pilot project lays the groundwork for a possible future emissions reduction trading system.

Assessment and correction of royalties and taxes

The Department must ensure that all of the non-renewable resource revenues, mineral rights taxes, and other fees due to the Government are accurate and complete. To do so, the Department must have rules and procedures so that all producers are aware of the deadlines for submitting required documents (returns) on time. The Department must then have competent staff check and review all returns for accuracy and completeness. Delays in submission of returns by producers and undue delays in checking and reviewing those returns result in delays in proper assessment and collection of royalties and taxes due to the Government.

The Department must have rules and procedures to ensure that all producers complete and submit the necessary returns on a timely basis. The assessment of royalties and taxes is a very complex process, mostly based on self-assessment principles involving complex calculations. The Department must have a computerized system to process the returns submitted by producers without delays. The Department must also remind producers who do not submit their returns. Furthermore, the Department must promptly collect the assessed royalties and taxes from producers.

The Department has a royalty and production tax system. Also, the Department audits industry compliance with regulatory requirements. To encourage timely payments of royalties and taxes, the Department assesses penalties when amounts due are not paid.

Industry activities are safe and environmentally responsible

The Department needs to ensure industry activities are conducted in a safe and environmentally responsible manner. Exploration, drilling, and extraction of resources must all be done in a safe and responsible manner.

The Department must ensure that it has the capacity for adequate field inspections so that the industry complies with departmental operating and environmental regulations. The Department must consult and educate companies on responsible and environmentally safe resource management techniques. The producers must be made aware of the consequences if they do not comply with departmental operating and environmental regulations. The Department must also address public concerns about environmental issues relating to exploration and extraction of resources.

The Department's officials meet and discuss environmental issues with officials of the oil and gas industry. It uses a fund called the Oil and Gas Environmental Fund to pay for expenses related to abandoned oil wells.

Our audit conclusions and findings

In our opinion, for the year ended March 31, 2001:

- **the financial statements of the Oil and Gas Environmental Fund are reliable;**
- **the Department had adequate rules and procedures to safeguard and control its assets and the assets of the Fund; and**
- **the Department complied with the authorities governing its activities and the activities of the Fund relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except for Newgrade payments that need authority as described below.**

NewGrade payments continue to need authority

Producers of gas on Crown land remit royalties to the Department under *The Crown Oil and Gas Royalty Regulations*. NewGrade Energy Inc. (NewGrade) buys some of this gas from producers to use in its heavy oil upgrader in Regina.

In 2000-2001, the Department paid $2.4 million to NewGrade. The Department called this payment "NewGrade Royalty Rebate". The Department used Order in Council 7/89 as its authority for the payment.

The Order imposes the following conditions:

- Producers of the gas must pay the Department the full amount of royalties due under the law.
- Producers also must assign to NewGrade their right to the remission under this Order.
- The Department must pay the amount of the remissions to NewGrade for a minimum of fifteen years or until NewGrade's debt, guaranteed by the Government in December 1986, is paid.

The authority to issue this Order is section 24 of *The Financial Administration Act, 1993*.

Section 24 of the Act allows the Lieutenant Governor in Council (Cabinet) to remit (forgive) or exempt any person from liability to pay any tax, royalty, rental, or fee to the Crown.

We think the only persons who can be forgiven are the persons liable to pay the royalties. Because the Order imposes the condition that the producers must still pay, there is no forgiveness. The only change is that NewGrade receives the monies collected instead of the Crown. Therefore, the effect of the Order is not a remission to producers but a grant to NewGrade.

Section 24 of the Act gives Cabinet the power to remit royalties but not the power to make grants. Accordingly, the grant of $2.4 million to NewGrade is not authorized under section 9 of *The Department of Energy and Mines Act*.

The Department records this grant as a reduction of revenue. The Legislative Assembly does not specifically approve reductions of revenue. We think the Department should record this grant as an expense. Recording the grant as an expense would provide the Legislative Assembly the opportunity to annually debate and provide the money to pay the grant. We think this is an important parliamentary principle.

We also reported this matter in our 1999 Fall Report – Volume 2 and previous reports to the Legislative Assembly. In these Reports, we recommended:

- The Estimates should present future payments to NewGrade under this agreement as expenditures.
- The Department should report these payments as an expense of the Department.

The Standing Committee on Public Accounts of the Twenty-Second Legislature considered this matter several times. This Committee made the following recommendation to the Legislative Assembly on May 25, 1992, March 17, 1993, and March 29, 1994:

> If the remission of natural gas royalties is to continue to be paid to NewGrade Energy Inc. the amount to be provided should be included in the Estimates and presented to the Legislative Assembly for their consideration.

The Legislative Assembly agreed with the 1992, 1993, and 1994 recommendations of this Committee.

The Standing Committee on Public Accounts for the Twenty-Third Legislature considered this matter on December 13, 1996. This Committee reported as follows to the Legislative Assembly on April 24, 1997:

> Your Committee reports that it disagrees with the Provincial Auditor's recommendations made at paragraphs 15.15 and 15.16, concerning the accounting of future payments to NewGrade Energy Inc. and the reporting of the payments of expenses. It is your Committee's view that the Department is in compliance with the accounting requirements provided for in section 24 of The Financial Administration Act as it pertains to Order in Council 7/89.

On November 24, 1998, the Standing Committee on Public Accounts considered this matter again and reaffirmed its decision reported to the Legislative Assembly on April 24, 1997.

On September 28, 2001, the Standing Committee on Public Accounts for the Twenty-Fourth Legislature considered this matter and did not concur with our recommendations.

Board of Internal Economy

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Executive summary

This chapter describes our audit conclusions and findings for the Board of Internal Economy for the year ended March 31, 2001. In recent years, the Board has made good progress in strengthening its processes to manage public money. For the most part, the Board is well managed and is complying with its governing authorities. However, the Board needs to make further improvements in three areas.

First, the Board needs to know that caucus offices' spending complies with the Board's directives. The Board should ask the caucus offices' auditors to provide this information to the Board.

Second, the Board needs to improve the internal management reports it uses to make decisions. The Board should improve these reports by defining the information it requires to assess the Board's performance.

Finally, the Board needs to prepare an annual report on its operations. An annual report is a necessary accountability document for all public sector organizations.

Introduction

The Board of Internal Economy (Board) assists Members of the Legislative Assembly (MLAs) to perform their responsibilities. It provides funding and support services to MLAs, the Legislative Assembly, and its committees. It also informs the public of the Legislature's activities. The Board provides administrative services for the Office of the Ombudsman and the Children's Advocate, the Information and Privacy Commissioner, and the Conflict of Interest Commissioner.

In 2000-01, the Board received $15.7 million from the General Revenue Fund and spent this money on its programs. Information about the Board's expenditures appears in the *Public Accounts 2000-01: Volume 2: Details of Revenue and Expenditure* (to view a copy of this report, see http://www.gov.sk.ca/finance/paccts).

The following is a list of major programs and spending:

	Original Estimates	Actual
	(in millions of dollars)	
Payments and Allowances to MLAs	$ 9.2	$ 9.2
Legislative Assembly Services	3.3	3.3
Administration	2.2	2.1
Caucus Operations	1.0	1.0
Other	0.4	0.3
	$ 16.1	$ 15.7

Key risks the Board faces

The Board plays a key role in helping MLAs perform their important responsibilities. How MLAs carry out their duties influences the quality and effectiveness of the Government and the public's confidence in our parliamentary system of government. Responsibilities of MLAs include:

- making the laws that govern people and the Executive Government;
- holding the Executive Government accountable for how it carries out its activities; and

- representing their constituencies in the Assembly.

In assisting MLAs to carry out their important responsibilities, the Board faces many risks. Four key risks the Board needs to manage are:

- to ensure the Legislative Assembly and its committees can function effectively;
- to ensure MLAs can access from the Board appropriate resources, information, and advice to enable them to effectively carry out their responsibilities in the Assembly;
- to ensure MLAs can access from the Board appropriate resources to carry out their activities in their constituencies and are accountable for the use of those resources; and
- to ensure the public can assess whether the work of the Assembly and MLAs is relevant and done well.

For additional discussion of these key risks and the Department's strategies to manage them, see our 1999 Fall Report – Volume 2.

Our audit conclusions and findings

In our opinion, for the year ended March 31, 2001:

- **the Board had adequate rules and procedures to safeguard and control its assets except for payments made to caucus offices and the need for better internal reports; and**
- **the Board complied with the authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except for payments made to caucus offices.**

We also note one other matter relating to improving public accountability for the Legislative Assembly's attention.

Better control over the expenses of caucus offices required

The Board needs to further improve its rules and procedures to know if caucus offices manage public money appropriately. A caucus office consists of two or more MLAs who belong to the same political party.

The Board provides public money to caucus offices for research, secretarial, and other general expenses.

During the year, the Board paid out the following money.

	Original Estimates	Actual
	(in millions of dollars)	
Government Caucus	$ 323,000	$ 324,411
Opposition Caucus	583,000	593,600
Third Party Caucus/other Caucus	125,000	112,528
Offices of independent members	---	1,197
	$ 1,031,000	$ 1,031,736

The Board is accountable to the Assembly for how caucus offices manage public money and must ensure that the public money it gives to the caucus offices is spent for the purposes intended by the Board.

The Board has improved its rules and procedures for monitoring how caucus offices manage public money. The Board requires all caucus offices to submit audited financial statements and audited schedules of capital assets to the Board each year. The Board makes the reports available for public viewing and gives the reports to the Legislative Assembly.

However, the Board does not know if caucus offices spend public money for the intended purposes. Audited financial statements and schedules of capital assets do not provide the necessary information to know if the caucus offices spent the money for intended purposes. The Board should require caucus offices to provide reports from their auditors indicating whether the caucus offices:

- have adequate rules and procedures to safeguard and control public money; and

- used the money in compliance with the Board's directives.

As described earlier, the auditors of the caucus offices were not asked to report to the Board on these matters, and we do not audit caucus offices directly. As a result, we are unable to determine whether caucus offices have adequate rules and procedures to safeguard and control public money or whether they used the money in compliance with the Board's directives.

We also reported this matter for several years.

1. **We recommend that the Board establish rules and procedures to ensure the money provided to caucus offices is spent for the purposes intended by requiring caucus offices to have their auditors report to the Board on:**

    - **the adequacy of the caucus offices' rules and procedures to safeguard and control public money; and**

    - **whether the caucus offices used the money given to them in compliance with the Board's directives.**

Better internal reports required

The Board needs to continue to improve the performance reports it requires from management.

The Board must have sound performance reports to:

- ensure the Board is meeting its goals and objectives;
- monitor management's performance; and
- provide a sound basis for preparing an annual report.

Near the end of the year, the Board began receiving quarterly financial reports that compare planned results to actual results and forecasts to the end of the year. These reports also included explanations of significant differences between planned and actual results. However, the Board does not receive operational reports that show the effectiveness of the Board's programs and services (i.e., what results the Board expects and how it is progressing towards those expectations).

The Board needs to tell management what its operational goals and objectives are and the performance targets and measures needed to monitor progress in achieving its goals and objectives. Management should then prepare operational reports that show progress towards its operational goals and objectives for the Board's review and approval.

We also reported this matter for several years.

2. **We recommend that the Board should:**

- **define and document its operational goals and objectives;**
- **define performance targets and measures needed to monitor progress in achieving its goals and objectives; and**
- **define and document the operational reports it expects to receive from management.**

Annual report needed

The Board does not prepare an annual report on its performance.

The Legislative Assembly and Executive Council Act does not require the Board to prepare an annual report. However, almost all government organizations provide the Assembly with an annual report. In addition, the Standing Committee on Public Accounts recommended that all government departments provide timely annual reports on their activities.

To assess performance of public sector agencies, Members of the Legislative Assembly and the public need to know how the agency is managing its key risks. They also need to know information about the agency's goals and objective and how successful the agency has been in achieving those goals and objectives. Annual reports can provide this information.

To be good accountability documents, annual reports should also describe what the public agency is all about, how it manages its key risks, what it has done, where it is now, and what it plans to do. In addition, to ensure the information in the report is relevant and understandable, the annual report should be written clearly and be available promptly after the agency's year end.

As we noted earlier, the Board also needs to improve its internal reports. These reports would provide a sound basis for the preparation of an annual report.

The Board plays a key role in fostering public confidence in our parliamentary system of government. An annual report would contribute to public confidence.

We also reported this matter for several years.

3. **We recommend that the Board should prepare an annual report on its performance and provide the report to the Legislative Assembly.**

The Board told us it:

> …continues to believe that the best means of enabling the public to assess whether the work of the Assembly and MLAs is relevant and well-done is by ensuring complete and free public and press access to House and Committee proceedings through television, printed Hansard, the internet website and open, public meetings.

Appendix

1

NOTE:

All persons making use of this consolidation are reminded that it has no legislative sanction, that the amendments have been embodied only for convenience of reference and that the original statutes and regulations should be consulted for all purposes of interpretation and application of the law. Please note, however, that in order to preserve the integrity of the original statutes and regulations, errors that may have appeared are reproduced in this consolidation.

The Provincial Auditor Act

SHORT TITLE AND INTERPRETATION

Short Title

1 This Act may be cited as *The Provincial Auditor Act*.

Interpretation

2 In this Act:

(a) **"acting provincial auditor"** means the acting provincial auditor appointed pursuant to section 5;

(a.1) **"appointed auditor"** means an auditor appointed pursuant to an Act or other authority by the Lieutenant Governor in Council or another body to examine the accounts of a Crown agency or Crown-controlled corporation or accounts otherwise related to public money;

(b) **"audit"** means an audit or examination of accounts of public money that may be made by the provincial auditor pursuant to this Act;

(c) **"Crown"** means Her Majesty the Queen in right of Saskatchewan;

(d) **"Crown agency"** means an association, board, commission, corporation, council, foundation, institution, organization or other body, whether incorporated or unincorporated, all the members of which or all of the board of management or board of directors of which:

(i) are appointed by an Act or by the Lieutenant Governor in Council; or

(ii) are, in the discharge of their duties, public officers or servants of the Crown;

and includes a corporation that has at least 90% of its issued and outstanding voting shares vested in the Crown;

(e) **"Crown-controlled corporation"** means a corporation that is not a Crown agency and that has less than 90% and more than 50% of its issued and outstanding voting shares vested in the Crown;

(f) **"fiscal year"** means the period commencing on April 1 in one year and ending on March 31 in the next year;

(g) **"provincial auditor"** means the Provincial Auditor for Saskatchewan appointed pursuant to section 3.1;

(g.1) **"public accounts committee"** means the Standing Committee of the Legislative Assembly on Public Accounts;

(h) **"public money"** means all revenues and public moneys from whatever source arising, whether the revenues and moneys:

(i) belong to the Government of Saskatchewan; or

(ii) are collected or held by officers of the departments of the Government of Saskatchewan or Crown agencies for, on account of or in trust for the Government of Canada or the government of any other province or for any other party or person;

and includes public property;

(i) **"public property"** means property held or administered by the Crown;

(j) **"Speaker"** means the member of the Legislative Assembly elected as Speaker in accordance with *The Legislative Assembly and Executive Council Act*.

1983, c.P-30.01, s.2; 1986-87-88, c.26, s.4;
2001, c.32, s.3.

APPOINTMENT AND OFFICE

Provincial Auditor for Saskatchewan

3(1) The office of Provincial Auditor for Saskatchewan is established.

(2) The provincial auditor is an officer of the Legislative Assembly.

2001, c.32, s.4.

Appointment of provincial auditor

3.1(1) On the unanimous recommendation of the public accounts committee, the Legislative Assembly shall, by resolution, appoint a provincial auditor.

(2) The provincial auditor holds office for a term of 10 years from the date of his or her appointment unless, before that term expires, he or she:

(a) resigns or is suspended or removed from office pursuant to section 3.2; or

(b) attains the normal date of retirement for employees of the public service of Saskatchewan.

(3) The provincial auditor may apply for a second or subsequent term.
2001, c.32, s.4.

Resignation, removal of provincial auditor

3.2(1) The provincial auditor may resign the office at any time by giving written notice:

(a) to the Speaker; or

(b) if there is no Speaker or if the Speaker is absent from Saskatchewan, to the President of the Executive Council.

(2) The Legislative Assembly may, by resolution, suspend or remove the provincial auditor from office for cause.
2001, c.32, s.4.

Salary of the provincial auditor

4(1) Subject to subsections (2) and (3), the provincial auditor is to be paid a salary equal to the average salary of all the deputy ministers and acting deputy ministers of the Government of Saskatchewan calculated as at April 1 in each year.

(2) Any benefits or payments that may be characterized as deferred income, retirement allowances, separation allowances, severance allowances or payments in lieu of notice are not to be included in calculating the average salary of all the deputy ministers and acting deputy ministers pursuant to subsection (1).

(3) Where, as a result of a calculation made pursuant to subsection (1), the salary of a provincial auditor would be less than that provincial auditor's previous salary, the provincial auditor is to be paid not less than his or her previous salary.

(4) The provincial auditor is entitled to receive any privileges of office and economic adjustments that are provided generally to deputy ministers.

(5) The salary of the provincial auditor shall be paid out of the general revenue fund.
2001, c.32, s.5.

Acting provincial auditor

5(1) The provincial auditor may appoint an employee of his office as acting provincial auditor.

(2) Where the position of provincial auditor is vacant and there is no acting provincial auditor, the Lieutenant Governor in Council may appoint a person as acting provincial auditor who is to hold office until an acting provincial auditor is appointed pursuant to subsection (1).

(3) Where the position of provincial auditor is vacant or the provincial auditor is absent or unable to perform his duties due to illness or other disability, the acting provincial auditor has all the powers and shall exercise all the duties of the provincial auditor.

1983, c.P-30.01, s.5.

Qualifications of provincial auditor, acting provincial auditor

6 No person is eligible to be appointed as provincial auditor or as acting provincial auditor unless he is a member in good standing of the Institute of Chartered Accountants of Saskatchewan.

1983, c.P-30.01, s.6.

Advisors, etc.

7 For the purposes of exercising any of the powers or carrying out any of the duties imposed upon him by this Act, the provincial auditor may engage the services of or retain any technical, professional or other advisers, specialists or consultants that he considers necessary.

1983, c.P-30.01, s.7; 2001, c.32, s.6.

Office of the provincial auditor

8(1) The provincial auditor may employ any persons that he considers necessary to assist him in carrying out his duties and fulfilling his responsibilities under this Act.

(2) Employees of the provincial auditor's office are employees of the Legislative Assembly and are not members of the public service of Saskatchewan.

(3) The employee benefits applicable to the public servants of Saskatchewan apply or continue to apply, as the case may be, to the provincial auditor and the employees of the provincial auditor's office.

(4) *The Public Service Superannuation Act*, *The Superannuation (Supplementary Provisions) Act* and *The Public Employees Pension Plan Act* apply to the provincial auditor and the employees of the provincial auditor's office, and all credits in any superannuation plan or fund established pursuant to those Acts for the provincial auditor and the employees of the provincial auditor's office and accumulated under those Acts, before the coming into force of this section, are preserved and continued in accordance with those Acts.

(5) The provincial auditor shall administer, manage and control the provincial auditor's office and the general business of the office and shall oversee and direct the staff of the office.

1983, c.P-30.01, s.8; 2001, c.32, s.7.

Confidentiality

9 The provincial auditor shall require every person employed in his or her office, and any person engaged or retained pursuant to section 7, who is to examine the accounts of a department of the Government of Saskatchewan, Crown agency or Crown-controlled corporation pursuant to this Act to comply with any security requirements applicable to, and to take any oath of secrecy required to be taken by, persons employed in that department, Crown agency or Crown-controlled corporation.

1983, c.P-30.01, s.9; 2001, c.32, s.8.

Delegation of authority

10 The provincial auditor may delegate to any member of the provincial auditor's office the authority to exercise any power or to perform any duty conferred on the provincial auditor pursuant to this Act, other than the duty to make:

(a) an annual report on operations pursuant to section 10.4;

(b) a business and financial plan pursuant to section 10.5;

(c) an annual report pursuant to section 12; or

(d) a special report to the Legislative Assembly.

2001, c.32, s.9.

Estimates

10.1(1) For each fiscal year, the provincial auditor shall present to the public accounts committee, in accordance with any instructions from the public accounts committee, estimates of the moneys that will be required to be provided by the Legislature for the expenses of the provincial auditor's office, including an amount for unforeseen expenses.

(2) On receipt of the estimates pursuant to subsection (1), the public accounts committee:

(a) shall review the estimates; and

(b) may make any alterations to the estimates that the public accounts committee considers appropriate.

(3) After reviewing and making any alterations to the estimates pursuant to subsection (2), the public accounts committee shall approve the estimates.

(4) After approving the estimates pursuant to subsection (3), the chairperson of the public accounts committee shall submit the estimates to the Speaker and to the Board of Internal Economy.

(5) The Speaker shall cause the estimates submitted pursuant to subsection (4) to be laid before the Legislative Assembly.

(6) Notwithstanding subsections (1) to (5), if a public accounts committee has not been appointed by a date to allow the Speaker to cause the estimates of the provincial auditor for a fiscal year to be laid before the Legislative Assembly pursuant to subsections (1) to (5), the Speaker shall cause the estimates of the provincial auditor for the previous fiscal year to be laid before the Legislative Assembly.

(7) The Legislative Assembly may refer the estimates laid before it pursuant to subsection (5) or (6) to a Standing Committee of the Legislative Assembly.

(8) Where the estimates are not referred to a Standing Committee of the Legislative Assembly, the estimates are to be considered in the Committee of Finance and defended by a member of the Executive Council who is designated by the President of the Executive Council.

(9) *The Tabling of Documents Act, 1991* does not apply to the estimates required to be prepared by the provincial auditor pursuant to this section.

2001, c.32, s.9.

Unprovided for or unforeseen expenses

10.2(1) For the purposes of this section, the Legislature is not in session where it:

(a) is prorogued; or

(b) is adjourned for an indefinite period or to a day more than seven days after the Lieutenant Governor in Council made the order directing the preparation of the special warrant pursuant to this section.

(2) If the Legislature is not in session, the provincial auditor may report to the public accounts committee that:

(a) a matter has arisen with respect to the administration of this Act respecting an expense required by the provincial auditor's office that was not foreseen or provided for, or was insufficiently provided for; and

(b) the provincial auditor is of the opinion that there is no appropriation for the expense or that the appropriation is exhausted or insufficient and that the expense is urgently and immediately required for the public good.

(3) On receipt of a report of the provincial auditor pursuant to subsection (2), the public accounts committee:

(a) shall review the report and make any alterations to the funding request in the report that the public accounts committee considers appropriate; and

(b) may recommend to the Minister of Finance that a special warrant be issued authorizing the expense in the amount the public accounts committee determines to be appropriate.

(4) On receipt of a recommendation of the public accounts committee pursuant to subsection (3), the Minister of Finance shall recommend to the Lieutenant Governor in Council that a special warrant be issued authorizing the expense in the amount recommended by the public accounts committee.

(5) On receipt of a recommendation of the Minister of Finance pursuant to subsection (4), the Lieutenant Governor in Council may order a special warrant to be prepared for the signature of the Lieutenant Governor authorizing the expense in the amount recommended by the public accounts committee.

(6) For the purposes of *The Financial Administration Act, 1993* and of this Act, a special warrant issued pursuant to subsections (1) to (5) is deemed to be a special warrant issued pursuant to section 14 of *The Financial Administration Act, 1993*, and that Act applies to a special warrant issued pursuant to those subsections as if it were issued pursuant to section 14 of that Act.

(7) Notwithstanding subsections (1) to (6), the provincial auditor may request that the Minister of Finance recommend that a special warrant be issued pursuant to section 14 of *The Financial Administration Act, 1993* if:

(a) a public accounts committee has not been appointed; and

(b) the provincial auditor reports that the conditions mentioned in clauses (2)(a) and (b) are met.

2001, c.32, s.9.

Expenses limited to appropriation

10.3(1) In this section, **"appropriation"** means:

(a) an appropriation for the expenses of the provincial auditor's office made by an *Appropriation Act*;

(b) an appropriation by special warrant issued pursuant to section 10.2; and

(c) any other amount that is permitted or directed to be paid out of the general revenue fund pursuant to this or any other Act for the expenses of the provincial auditor's office.

(2) The provincial auditor shall not incur expenses for a fiscal year in excess of the appropriation for that fiscal year.

(3) The Minister of Finance shall pay to the provincial auditor out of the general revenue fund the appropriation for a fiscal year in the amounts and at the times requested by the provincial auditor.

(4) Where the amounts paid to the provincial auditor pursuant to subsection (3) on account of an appropriation for a fiscal year exceed the expenses of the provincial auditor's office for that fiscal year, the provincial auditor shall repay the excess to the Minister of Finance as soon as is practicable after the end of the fiscal year, and the Minister of Finance shall deposit any amounts received pursuant to this subsection in the general revenue fund.

2001, c.32, s.9.

Annual report on operations

10.4(1) In each fiscal year, the provincial auditor shall prepare and submit to the Speaker an annual report on operations that is to consist of the following:

(a) a report on the operations of the provincial auditor's office for the preceding fiscal year;

(b) the audited financial statement for the provincial auditor's office showing the results of its operations for the preceding fiscal year.

(2) The provincial auditor shall submit the annual report on operations mentioned in subsection (1) within 120 days after the end of the fiscal year to which the annual report on operations relates.

2001, c.32, s.9.

Business and financial plan

10.5 Prior to the beginning of each fiscal year, by a date that may be required by the public accounts committee, the provincial auditor shall prepare and submit to the Speaker a business and financial plan for the provincial auditor's office showing its planned operations and its planned revenues and expenses for the fiscal year.

2001, c.32, s.9.

DUTIES AND POWERS

Examination of accounts

11(1) The provincial auditor is the auditor of the accounts of the government of Saskatchewan and shall examine all accounts related to public money and any accounts not related to public money that he is required by an Act to examine, and shall determine whether, in his opinion:

(a) the accounts have been faithfully and properly kept;

(b) public money has been fully accounted for and properly disposed of, and the rules and procedures applied are sufficient to ensure an effective check on the assessment, collection and proper allocation of public money;

(c) public money expended has been applied to the purposes for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and

(d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money.

(2) An appointed auditor is subject to the examination responsibilities prescribed in clauses (1)(a) to (d).

(3) For the purposes of this section, where an auditor, including an appointed auditor, is required to examine accounts and render an opinion on those accounts, he shall do so in accordance with generally accepted auditing standards as prescribed from time to time by the Canadian Institute of Chartered Accountants.

1986-87-88, c.26, s.6.

Reliance on report of appointed auditor

11.1(1) In the fulfilment of his responsibilities as the auditor of the accounts of the Government of Saskatchewan, the provincial auditor may rely on the report of the appointed auditor of a Crown agency or Crown-controlled corporation if he is satisfied that the appointed auditor has carried out his responsibilities pursuant to section 11 with respect to that Crown agency or Crown-controlled corporation.

(2) The provincial auditor may only rely on the report of an appointed auditor of a Crown agency or the appointed auditor of a Crown-controlled corporation if the appointed auditor:

(a) is a member in good standing of a recognized accounting profession that is regulated by an Act; and

(b) is not employed by a department of the Government of Saskatchewan, a Crown agency, a Crown-controlled corporation or the provincial auditor's office.

(3) Where the provincial auditor determines pursuant to subsection (1) or (2) that he or she is unable to rely on the report of the appointed auditor with respect to a Crown agency or Crown-controlled corporation, the provincial auditor shall conduct additional audit work with respect to the accounts of that Crown agency or Crown-controlled corporation.

(4) Where the provincial auditor has conducted additional audit work on the accounts of a Crown agency or Crown-controlled corporation pursuant to subsection (3), the provincial auditor shall report in his or her annual report pursuant to this section:

(a) the reason that the provincial auditor was unable to rely on the report of the appointed auditor of the Crown agency or Crown-controlled corporation;

(b) the nature of the additional audit work the provincial auditor conducted; and

(c) the results of the additional audit work.

1986-87-88, c.26, s.6; 2001, c.32, s.10.

Annual Report

12(1) At the end of each fiscal year, the provincial auditor and every appointed auditor shall prepare a report on the results of all examinations that they have conducted of departments of the Government of Saskatchewan, Crown agencies and Crown-controlled corporations during that year giving details of any reservation of opinion made in an audit report, and shall identify any instances they consider to be of significance and of a nature that should be brought to the attention of the Legislative Assembly, including any cases in which they observe:

(a) any officer or employee of a department of the Government of Saskatchewan or Crown agency has wilfully or negligently omitted to collect or receive any public money belonging to the Crown;

(b) any public money was not duly accounted for and paid into the appropriate fund;

(c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by the Legislature;

(d) an expenditure was made for which there was no authority or which was not properly vouchered or certified;

(e) there has been a deficiency or loss to the Crown through the fraud, default or mistake of any person;

(f) a special warrant authorized the payment of public money; or

(g) essential records were not maintained or the rules and procedures applied were not sufficient:

(i) to safeguard and control public money;

(ii) to effectively check the assessment, collection and proper allocation of public money; or

(iii) to ensure that expenditures were made only as authorized.

(1.1) On completion of any examination of the accounts of a Crown agency or Crown-controlled corporation, an appointed auditor shall submit to the provincial auditor the report prepared pursuant to subsection (1) with respect to that Crown agency or Crown-controlled corporation.

(1.2) At the end of each fiscal year, the provincial auditor shall compile the reports submitted to him by appointed auditors pursuant to subsection (1.1) and shall submit them together with his report prepared pursuant to this section in the form of an annual report to the Legislative Assembly.

(2) In the annual return made pursuant to subsection (1), the provincial auditor may:

(a) report on the work of his office and on whether, in carrying on the work of his office, he received all the information, reports and explanations he required from departments of the Government of Saskatchewan, Crown agencies or Crown-controlled corporations or their auditors; and

(b) comment on the financial statements of any department of the Government of Saskatchewan, Crown agency or Crown-controlled corporation of which he is the auditor.

(3) Notwithstanding subsection (1), neither the provincial auditor nor any appointed auditor is required to report to the Legislative Assembly on any matter that he considers immaterial or insignificant.

1983, c.P-30.01, s.12; 1986-87-88, c.26, s.7.

Special report

13 The provincial auditor may prepare a special report to the Legislative Assembly on any matter that is, in his opinion, important or urgent.

1983, c.P-30.01, s.13.

Submission of provincial auditor's reports

14 Notwithstanding *The Tabling of Documents Act, 1991*, the provincial auditor shall submit to the Speaker, as soon as is practicable:

(a) the annual report prepared pursuant to section 12; and

(b) any special report that is prepared by the provincial auditor pursuant to section 13.

2001, c.32, s.11.

Tabling of reports

14.1(1) In this section, **"report"** means:

(a) an annual report on the operations of the provincial auditor's office that is submitted to the Speaker pursuant to section 10.4;

(b) a business and financial plan for the provincial auditor's office that is submitted to the Speaker pursuant to section 10.5;

(c) an annual report prepared pursuant to section 12 that is submitted to the Speaker pursuant to section 14;

(d) any special report that is prepared by the provincial auditor pursuant to section 13 that is submitted to the Speaker pursuant to section 14; or

(e) a report of the auditor of the accounts of the provincial auditor's office that is submitted to the Speaker pursuant to section 27.

(2) The Speaker shall lay before the Legislative Assembly each report received by the Speaker as soon as is practicable after it is received.

(3) If the Legislative Assembly is not in session when the Speaker receives a report, the Speaker shall submit the report to the Clerk of the Legislative Assembly.

(4) When the Clerk of the Legislative Assembly receives a report pursuant to subsection (3), the Clerk shall, as soon as possible:

(a) subject to subsection (5), cause a copy of the report to be delivered to each member of the Legislative Assembly; and

(b) make the report available for public inspection during normal business hours of the Clerk of the Legislative Assembly.

(5) The requirement in subsection (4) to deliver a copy of a report to the members of the Legislative Assembly does not apply in the period that:

(a) commences on the day a Legislative Assembly is dissolved; and

(b) ends on the day fixed for making the return to the writ for the general election held pursuant to *The Election Act, 1996* that follows the dissolution mentioned in clause (a).

(6) If a report is submitted to the Clerk of the Legislative Assembly in accordance with subsection (3), the report is deemed to have been laid before the Assembly.

(7) Where a report is laid before the Legislative Assembly pursuant to subsection (2) or is deemed to be laid before the Legislative Assembly pursuant to subsection (6), the report is deemed to be referred to the public accounts committee.

(8) Notwithstanding subsection (7), where a report or part of a report mentioned in subsection (7) deals with a matter that relates to the Crown Investments Corporation of Saskatchewan or a subsidiary Crown corporation within the meaning of *The Crown Corporations Act, 1993*, the report or part of the report is deemed to be referred to the Standing Committee of the Legislative Assembly on Crown Corporations.

2001, c.32, s.11.

Certification of Statements

15(1) The provincial auditor or the appointed auditor, as the case may be, shall express an opinion, in accordance with the outcome of his examinations, on the financial statements of:

(a) any funds that he is required to audit pursuant to subsection 11(1);

(b) Crown agencies;

(c) Crown-controlled corporations; and

(d) accounts not related to public money that are, by an Act, required to be examined by him.

(2) Notwithstanding any other provision of this Act, the provincial auditor is not required to audit or report on the financial statements of a Crown agency or Crown-controlled corporation for which there is an appointed auditor.

1983, c.P-30.01, s.15; 1986-87-88, c.26, s.9.

Special assignments

16(1) Where:

(a) the Legislative Assembly or the Standing Committee of the Legislative Assembly on Public Accounts:

(i) requests the provincial auditor to perform a special assignment; and

(ii) causes the provincial auditor to be provided with the funding that the provincial auditor considers necessary to undertake the special assignment; and

(b) in the opinion of the provincial auditor, the special assignment will not unduly interfere with his other duties prescribed in this Act;

the provincial auditor shall perform the special assignment.

(2) Notwithstanding *The Tabling of Documents Act*:

(a) the provincial auditor shall submit to the Speaker, as soon as is practicable, the report of any special assignment prepared pursuant to subsection (1) on the request of the Legislative Assembly; and

(b) the Speaker shall, as soon as is practicable, lay before the Legislative Assembly each report received by him pursuant to clause (a).

(3) The provincial auditor shall submit to the Clerk of the Assembly a special report prepared pursuant to subsection (1) on the request of the Standing Committee of the Legislative Assembly on Public Accounts, and the clerk shall make the special report available to the members of that committee.

(4) Where:

(a) the Lieutenant Governor in Council:

(i) requests the provincial auditor to perform a special assignment; and

(ii) causes the provincial auditor to be provided with the funding that the provincial auditor considers necessary to undertake the special assignment; and

(b) in the opinion of the provincial auditor, the special assignment will not unduly interfere with his other duties prescribed in this Act;

the provincial auditor may perform the special assignment.

(5) The provincial auditor shall submit, as soon as is practicable, a special report prepared pursuant to subsection (4) to the Lieutenant Governor in Council.

1983, c.P-30.01, s.16.

Improper retention of public money

17 Whenever, in the opinion of the provincial auditor or another auditor who is appointed to undertake an audit of Crown agencies or Crown-controlled corporations, any public money or revenues or money collected or held by employees of Crown-controlled corporations have been improperly retained by any person, the provincial auditor or the other auditor, as the case may be, shall immediately report the circumstances of that case to the member of the Executive Council who is responsible for the department of the Government of Saskatchewan, Crown agency or Crown-controlled corporation and the Minister of Finance.

1983, c.P-30.01, s.17.

Cancelled securities

18 The provincial auditor shall:

(a) cause to be examined debentures and other securities of the Government of Saskatchewan that have been redeemed;

(b) assure himself or herself that the securities described in clause (a) have been properly cancelled;

(c) at any time and to any extent that the Minister of Finance may require, participate in the destruction of any redeemed or cancelled securities or unissued reserves of securities; and

(d) at any time that he or she is requested to do so by the Minister of Finance, participate in audit assignments in connection with the filing of a prospectus and registration material required for the issuance and sale of securities of the Government of Saskatchewan.

1983, c.P-30.01, s.18; 2001, c.32, s.12.

Attendance before Public Accounts Committee

19 On the request of the Standing Committee of the Legislative Assembly on Public Accounts, the provincial auditor and any member of his office shall attend meetings of that committee to assist that committee:

(a) in planning the agenda for its review of the public accounts, the annual report of the provincial auditor, a special report prepared pursuant to section 13 or a report prepared pursuant to subsection 16(1) on the request of the committee; and

(b) during its review of the items described in clause (a).

1983, c.P-30.01, s.19.

AUDIT COMMITTEE

Audit committee

20(1) In this section and in sections 21 to 23, **"audit committee"** means the audit committee established pursuant to subsection (2).

(2) An audit committee is established.

(3) The audit committee is to consist of not more than five persons appointed by the Speaker on the unanimous recommendation of the public accounts committee.

(4) A recommendation of the public accounts committee pursuant to subsection (3) is to be made only after the public accounts committee has consulted with the Standing Committee of the Legislative Assembly on Crown Corporations.

(5) The following persons are not eligible to be a member of the audit committee:

(a) a Member of the Legislative Assembly;

(b) an appointed auditor;

(c) an employee of the Government of Saskatchewan, of a Crown agency, of a Crown-controlled corporation or of the provincial auditor's office.

(6) The Speaker shall designate as chairperson the member of the audit committee unanimously recommended by the public accounts committee.

(7) The audit committee may determine its rules of procedure.

(8) All expenses of the audit committee are to be paid out of the appropriation for the Legislative Assembly Office.

2001, c.32, s.13.

Functions of the audit committee

21(1) The public accounts committee may request the audit committee to assist it in undertaking the following:

(a) the recommending of a provincial auditor;

(b) the review of the estimates of the provincial auditor;

(c) the review of the annual report on operations of the provincial auditor;

(d) the review of any report of the provincial auditor prepared pursuant to section 12 or 13;

(e) any other matters that the public accounts committee may request.

(2) The provincial auditor, the Minister of Finance, the member of the Executive Council responsible for *The Crown Corporations Act, 1993* or the Standing Committee of the Legislative Assembly on Crown Corporations may request the audit committee to review any matter that, in the opinion of the provincial auditor, the Minister of Finance, the member of the Executive Council responsible for *The Crown Corporations Act, 1993* or the Standing Committee of the Legislative Assembly on Crown Corporations, as the case may be, should be considered by the audit committee.

2001, c.32, s.13.

Information to be provided to audit committee

22(1) The audit committee may request the provincial auditor and any officers or employees of the Government of Saskatchewan, a Crown agency or a Crown-controlled corporation to provide the audit committee with any information that the audit committee considers necessary to carry out its functions mentioned in section 21, and the provincial auditor and the officers or employees of the Government of Saskatchewan, the Crown agency or the Crown-controlled corporation may provide the information requested.

(2) The audit committee and each member of the audit committee:

(a) shall preserve secrecy with respect to all matters that come to their knowledge in the course of performing their functions pursuant to this Act; and

(b) shall not communicate those matters to any person, other than when required to do so in the performance of their functions pursuant to this Act.

2001, c.32, s.13.

Availability of reports

23(1) For the purpose of allowing the Minister of Finance to review and comment on the provincial auditor's annual report prepared pursuant to section 12, the provincial auditor shall submit the provincial auditor's annual report to the Minister of Finance at least 10 days before the provincial auditor causes the annual report to be printed for submission to the Speaker.

(2) The provincial auditor shall submit to the Minister of Finance any special report prepared pursuant to section 13 before the provincial auditor submits that special report to the Speaker.

2001, c.32, s.13.

GENERAL

Right to information, accommodation

24(1) The provincial auditor or the appointed auditor, as the case may be, is entitled:

(a) to free access, at all convenient times, to:

(i) all electronic data processing equipment and programs and documentation related to the electronic data processing equipment; and

(ii) all files, documents and other records relating to the accounts; of every department of the Government of Saskatchewan, Crown agency, Crown-controlled corporation or other person that he is required to examine or audit or, in the case of the provincial auditor, with respect to which he is examining pursuant to a special assignment; and

(b) to require and receive from employees of a department of the Government of Saskatchewan, Crown agency, Crown-controlled corporation or other person subject to examination or audit by him any information, reports and explanations that he considers necessary for the proper performance of his duties.

(2) The provincial auditor or an appointed auditor, as the case may be, may station in any department of the Government of Saskatchewan, Crown agency, Crown-controlled corporation or with any other person subject to examination or audit by him any employee of his office or advisor, specialist or consultant to enable him more effectively to carry out his duties, and the department, Crown agency, Crown-controlled corporation or other person subject to examination or audit shall provide the necessary office accommodation for the employee, advisor, specialist or consultant person so stationed.

1983, c.P-30.01, s.24; 1986-87-88, c.26, s.10.

Inquiries

25 The provincial auditor may examine any person on any matter relating to any account that is subject to an examination or audit by him, and, for the purposes of that examination, he may exercise all the powers of commissioners under *The Public Inquiries Act*.

1983, c.P-30.01, s.25.

Working papers

26 Neither the provincial auditor nor any appointed auditor is required to lay any audit working papers of his office before the Legislative Assembly or any committee of the Legislature.

1983, c.P-30.01, s.26; 1986-87-88, c.26, s.11.

Change in auditor

26.1 Where the auditor of a Crown agency or Crown-controlled corporation has been changed, the new auditor and the previous auditor shall deal with the transition in accordance with the rules of professional conduct as established from time to time by the Institute of Chartered Accountants of Saskatchewan.

1986-87-88, c.26, s.12.

Auditor of accounts of provincial auditor's office

27(1) On the recommendation of the public accounts committee, the Lieutenant Governor in Council shall appoint an accountant who meets the qualifications set out in subsection (2) to annually audit the accounts of the provincial auditor's office.

(2) For the purposes of subsection (1), the accountant appointed pursuant to this section:

(a) must be a member in good standing of a recognized accounting profession that is regulated by an Act; and

(b) must not be employed by a department of the Government of Saskatchewan, a Crown agency, a Crown-controlled corporation or the provincial auditor's office.

(3) The accountant appointed pursuant to subsection (1) has the same powers and shall perform the same duties in relation to an audit of the accounts of the provincial auditor's office that the provincial auditor has or performs in relation to an audit performed pursuant to this Act.

(4) The auditor of the accounts of the provincial auditor's office shall submit his or her report to the Speaker.

2001, c.32, s.14.

Fees

28(1) The provincial auditor may charge a reasonable fee for professional services provided by provincial auditor's office.

(2) All fees charged pursuant to subsection (1) and all other revenues received by the provincial auditor pursuant to this Act shall be deposited in the general revenue fund.

1983, c.P-30.01, s.28; 2001, c.32, s.15.

Limitation of liability

29 The provincial auditor, the employees in the provincial auditor's office and any adviser, specialist or consultant engaged or retained pursuant to section 7 are not liable in any action for any act done or not done or on any statement made by them in good faith in connection with any matter they are authorized or required to do under this Act.

1983, c.P-30.01, s.29; 2001, c.32, s.16.

Information confidential

30 The provincial auditor, any employee in the provincial auditor's office, an appointed auditor, any employee of an appointed auditor or any adviser, specialist or consultant engaged or retained pursuant to section 7:

(a) shall preserve secrecy with respect to all matters that come to his or her knowledge in the course of his or her employment or duties under this Act; and

(b) shall not communicate those matters to any person, other than when he or she is required to do so in connection with:

(i) the administration of this Act;

(ii) any proceedings under this Act; or

(iii) any proceedings in a court of law.

1983, c.P-30.01, s.30; 1986-87-88, c.26, s.13; 2001, c.32, s.17.

31 Repealed. 2001, c.32, s.18.

Transitional

32(1) The person appointed on the day before the coming into force of this section as provincial auditor pursuant to *The Department of Financial Act*, as that Act existed on the day before the coming into force of this Act, is deemed to be appointed as provincial auditor pursuant to this Act.

(2) On the day this section comes into force, the members of the public service who are employed in the office of the provincial auditor cease to be employed in the public service and each such person becomes an employee of the office of the provincial auditor at a salary of not less than that he was receiving on the day before the day this section comes into force.

1983, c.P-30.01, s.32.

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Appendix 2

List of and status of organizations subject to an examination under *The Provincial Auditor Act*

Appendix 2 lists the departments, Crown agencies, Crown-controlled corporations, special purpose and trust funds, offices of the Legislative Assembly, and other organizations subject to an audit examination under *The Provincial Auditor Act* at March 31, 2001.

This Appendix includes the status of all the audits at November 16, 2001 for government organizations primarily with fiscal periods ended March 31, 2001. The Appendix also indicates whether we have significant issues to report as a result of our audits and where these issues are reported.

Our goal is to report the results of our audits of organizations with March fiscal year-ends in our fall reports and organizations with December fiscal year-ends in our spring reports. We have not completed the audits at some agencies. In most cases, the audits have been delayed. However, in a few cases, we have not been given access to the necessary information to complete the audits. To ensure we provide the Legislative Assembly and the public with timely reports, we do not delay our reports to accommodate delayed audits, but rather include their results in future reports.

Public Agency	Year end on or before June 30, 2001	Status at November 16, 2001[1]	Significant issues reported[2]
Government of Saskatchewan – Summary Financial Statements	March 31	Complete	Yes/2001 Fall V1
Departments and Secretariats:			
Department of Agriculture and Food	March 31	Complete	Yes/2001 Fall V2
Department of Economic and Co-operative Development	March 31	Delayed	
Department of Education	March 31	Complete	Yes/2001 Fall V2
Department of Energy and Mines	March 31	Complete	Yes/2001 Fall V2
Department of Environment and Resource Management	March 31	Complete	Yes/2001 Fall V2
Department of.Finance	March 31	Complete	Yes/2001 Fall V2
Department of Health	March 31	Complete	Yes/2001 Fall V2
Department of Highways and Transportation	March 31	Complete	No
Department of Intergovernmental and Aboriginal Affairs	March 31	Complete	Yes/2001 Fall V2
Department of Justice	March 31	Complete	Yes/2001 Fall V2
Department of Labour	March 31	Complete	No
Department of Municipal Affairs, Culture and Housing	March 31	Delayed	
Department of Post-Secondary Education and Skills Training	March 31	Complete	Yes/2001 Fall V2
Department of Social Services	March 31	Complete	Yes/2001 Fall V2
Executive Council	March 31	Delayed	
Women's Secretariat	March 31	Complete	No
Crown Agencies:			
101000606 Saskatchewan Ltd.	December 31	Note 2	No
101000607 Saskatchewan Ltd.	December 31	Note 2	No
101005716 Saskatchewan Ltd.	December 31	Complete	Yes/2001 Spring
3231518 Canada Ltd. (click-a-bid)™	December 31	Complete	No
3339807 Canada Ltd.	December 31	Note 2	No
3364381 Canada Ltd.	December 31	Note 2	No
617275 Saskatchewan Ltd.	December 31	Complete	Yes/2001 Spring
620064 Saskatchewan Ltd.	December 31	Note 2	No
Agricultural Credit Corporation of Saskatchewan	March 31	Complete	No
Agricultural Implements Board	March 31	Complete	No
Agri-Food Innovation Fund	March 31	Complete	Yes/2001 Fall V2
Assiniboine Valley District Health Board	March 31	Complete	Yes/2001 Fall V2
Associated Entities Fund	March 31	Complete	No
Avonlea Holding, Inc.	December 31	Note 2	No
Battleford International Inc.	December 31	Note 2	No

Public Agency	Year end on or before June 30, 2001	Status at November 16, 2001[1]	Significant issues reported[2]
Battlefords District Health Board	March 31	Rotational	
Bayhurst Gas Limited	December 31	Complete	Yes/2001 Spring
Beef Development Board	March 31	Complete	No
Board of Governors, Uranium City Hospital	March 31	Delayed	Yes/2001 Fall V2
Canodev Research Inc.	July 31	Complete	No
Carlton Trail Regional College	June 30	Rotational	
Carlyle Holding, Inc.	December 31	Note 2	No
Central Plains District Health Board	March 31	Rotational	
Chicken Farmers of Saskatchewan	December 31	Note 1	
CIC Foods Inc.	December 31	Complete	No
CIC Industrial Interests Inc.	December 31	Complete	Yes/2001 Spring
CIC Pulp Ltd.	December 31	Complete	Yes/2001 Spring
Crown Investments Corporation of Saskatchewan	December 31	Complete	Yes/2001 Spring
Cumberland Regional College	June 30	Complete	Yes/2001 Fall V2
Cypress Hills Regional College	June 30	Complete	Yes/2001 Fall V2
DirectWest Publishing Partnership	December 31	Complete	No
Dundurn Holding, Inc.	December 31	Note 2	No
East Central District Health Board	March 31	Rotational	
Esterhazy Holding, Inc.	December 31	Note 2	No
First Nations Fund	March 31	Complete	Yes/2001 Fall V2
Foam Lake Holding, Inc.	December 31	Note 2	No
Gabriel Springs District Health Board	March 31	Rotational	
Genex Swine Group Inc.	September 30	Complete	Yes/2001 Spring
Greenhead District Health Board	March 31	Rotational	
Grenfell Holding, Inc.	December 31	Note 2	No
Health Services Utilization and Research Commission	March 31	Complete	No
Hollywood at Home Inc.	December 31	Note 2	No
Hospitality Network Canada Inc.	December 31	Note 2	No
Hospitality Network Canada Partnership	December 31	Complete	No
Information Services Corporation of Saskatchewan	December 31	Complete	Yes/2001 Spring
IQ&A Corporation	December 31	Note 2	No
IQ&A Partnership	December 31	Complete	No
Keewatin Yathe District Health Board	March 31	Rotational	
Law Reform Commission of Saskatchewan	March 31	Complete	No
Liquor and Gaming Authority	March 31	Complete	Yes/2001 Fall V2
Liquor Board Superannuation Commission, The	December 31	Complete	Yes/2001 Spring
Living Sky District Health Board	March 31	Complete	Yes/2001 Fall V2
Lloydminster District Health Board	March 31	Complete	Yes/2001 Fall V2

Appendix 2

Public Agency	Year end on or before June 30, 2001	Status at November 16, 2001[1]	Significant issues reported[2]
Mamawetan Churchill River District Health Board	March 31	Rotational	
Many Islands Pipe Lines (Canada) Limited	December 31	Complete	Yes/2001 Spring
Midwest District Health Board	March 31	Rotational	
Milk Control Board	December 31	Complete	Yes/2001 Spring
Moose Jaw-Thunder Creek District Health Board	March 31	Delayed	Yes/2001 Fall V2
Moose Mountain District Health Board	March 31	Rotational	
Municipal Employees' Pension Commission	December 31	Complete	No
Municipal Financing Corporation of Saskatchewan	December 31	Complete	No
Municipal Potash Tax Sharing Administration Board	December 31	Complete	No
North Central District Health Board	March 31	Rotational	
North Valley District Health Board	March 31	Complete	Yes/2001 Fall V2
North West Regional College	June 30	Rotational	
North-East District Health Board	March 31	Rotational	
Northern Enterprise Fund Inc.	December 31	Complete	Yes/2001 Spring
Northlands College	June 30	Rotational	
Northwest District Health Board	March 31	Rotational	
Operator Certification Board	March 31	Complete	Yes/2001 Fall V2
Parkland District Health Board	March 31	Rotational	
Parkland Regional College	June 30	Rotational	
Pasquia District Health Board	March 31	Rotational	
Pipestone District Health Board	March 31	Rotational	
Power Corporation Superannuation Board	December 31	Complete	Yes/2001 Spring
Power Greenhouses Inc.	December 31	Complete	Yes/2001 Spring
Prairie Agricultural Machinery Institute	March 31	Complete	Yes/2001 Fall V2
Prairie West District Health Board	March 31	Rotational	
Prairie West Regional College	June 30	Complete	Yes/2001 Fall V2
Prince Albert District Health Board	March 31	Complete	Yes/2001 Fall V2
Public Employees Pension Plan	March 31	Complete	No
Public Services Superannuation Board	March 31	Complete	Yes/2001 Spring
Regina District Health Board	March 31	Complete	Yes/2001 Fall V2
Rolling Hills District Health board	March 31	Rotational	
Sask Pork	December 31	Complete	No
Saskatchewan Alfalfa Seed Producers' Development Commission	July 31	Note 1	
Saskatchewan Apprenticeship and Trade Certification Commission	June 30	Complete	No
Saskatchewan Arts Board, The	March 31	Complete	No
Saskatchewan Auto Fund	December 31	Complete	Yes/2001 Spring

Public Agency	Year end on or before June 30, 2001	Status at November 16, 2001[1]	Significant issues reported[2]
Saskatchewan Broiler Hatching Egg Producers' Marketing Board	December 31	Note 1	
Saskatchewan Cancer Foundation	March 31	Complete	No
Saskatchewan Canola Development Commission	July 31	Complete	No
Saskatchewan Centre of the Arts	March 31	Complete	No
Saskatchewan Communications Network Corporation	March 31	Complete	No
Saskatchewan Crop Insurance Corporation	March 31	Complete	Yes/2001 Fall V2
Saskatchewan Development Fund Corporation	December 31	Complete	Yes/2001 Spring
Saskatchewan Egg Producers	December 31	Note 1	
Saskatchewan Flax Development Commission	July 31	Note 1	
Saskatchewan Gaming Corporation	March 31	Delayed	
Saskatchewan Government Growth Fund Ltd.	December 31	Complete	Yes/2001 Spring
Saskatchewan Government Growth Fund II Ltd.	December 31	Complete	Yes/2001 Spring
Saskatchewan Government Growth Fund III Ltd.	December 31	Complete	Yes/2001 Spring
Saskatchewan Government Growth Fund IV Ltd.	December 31	Complete	Yes/2001 Spring
Saskatchewan Government Growth Fund V (1997) Ltd.	December 31	Complete	Yes/2001 Spring
Saskatchewan Government Growth Fund VI Ltd.	December 31	Complete	Yes/2001 Spring
Saskatchewan Government Growth Fund VII Ltd.	December 31	Complete	Yes/2001 Spring
Saskatchewan Government Growth Fund VIII Ltd.	December 31	Complete	Yes/2001 Spring
Saskatchewan Government Growth Fund Management Corporation	December 31	Complete	Yes/2001 Spring
Saskatchewan Government Insurance	December 31	Complete	Yes/2001 Spring
Saskatchewan Government Insurance Superannuation Plan	December 31	Complete	No
Saskatchewan Grain Car Corporation	July 31	Complete	No
Saskatchewan Health Information Network	March 31	Complete	Yes/2001 Fall V2
Saskatchewan Heritage Foundation	March 31	Complete	No
Saskatchewan Housing Corporation	December 31	Complete	Yes/2001 Spring
Saskatchewan Institute of Applied Science and Technology	June 30	Complete	No
Saskatchewan Lotteries Trust Fund for Sports, Culture and Recreation	March 31	Complete	No
Saskatchewan Municipal Board	March 31	Complete	No

Appendix 2

Public Agency	Year end on or before June 30, 2001	Status at November 16, 2001[1]	Significant issues reported[2]
Saskatchewan Opportunities Corporation	December 31	Complete	Yes/2001 Spring
Saskatchewan Pension Annuity Fund	March 31	Complete	No
Saskatchewan Pension Plan	December 31	Complete	Yes/2001 Spring
Saskatchewan Power Corporation	December 31	Complete	Yes/2001 Spring
Saskatchewan Property Management Corporation	March 31	Complete	No
Saskatchewan Pulse Crop Development Board	August 31	Note 1	
Saskatchewan Research Council, The	March 31	Complete	No
Saskatchewan Sheep Development Board	September 30	Note 1	
Saskatchewan Telecommunications	December 31	Complete	Yes/2001 Spring
Saskatchewan Telecommunications Holding Corporation	December 31	Complete	Yes/2001 Spring
Saskatchewan Telecommunications International, Inc.	December 31	Complete	Yes/2001 Spring
Saskatchewan Trade and Export Partnership Inc.	March 31	Note 1	
Saskatchewan Transportation Company	December 31	Complete	Yes/2001 Spring
Saskatchewan Turkey Producers' Marketing Board	December 31	Note 1	
Saskatchewan Valley Potato Corporation	December 31	Complete	Yes/2001 Spring
Saskatchewan Water Corporation	December 31	Complete	Yes/2001 Spring
Saskatchewan Wetland Conservation Corporation	March 31	Complete	No
Saskatoon District Health Board	March 31	Complete	Yes/2001 Fall V2
SaskEnergy Chilean Holdings I Ltd.	December 31	Complete	Yes/2001 Spring
SaskEnergy Chilean Holdings II Ltd.	December 31	Complete	Yes/2001 Spring
SaskEnergy Chilean Holdings Limitada	December 31	Complete	Yes/2001 Spring
SaskEnergy Incorporated	December 31	Complete	Yes/2001 Spring
SaskEnergy International Incorporated	December 31	Complete	Yes/2001 Spring
SaskPen Properties Ltd.	December 31	Denied Access	
SaskPower International Inc.	December 31	Complete	Yes/2001 Spring
SaskTel Data Exchange Inc.	December 31	Note 2	No
SaskTel Holding (Australia), Inc.	December 31	Note 2	No
SaskTel Holding (New Zealand) Inc.	December 31	Note 2	No
SaskTel Holding (U.K.) Inc.	December 31	Note 2	No
SaskTel International Consulting, Inc.	December 31	Note 2	No
SaskTel International (Tanzania) Limited	December 31	Note 2	No
SaskTel Investments Inc.	December 31	Note 2	No
SaskTel New Media Fund Inc.	December 31	Note 2	No
SecurTek Monitoring Solutions Inc.	December 31	Complete	No
SGC Holdings Inc.	March 31	Delayed	
SGI CANADA Insurance Services Ltd.	December 31	Complete	Yes/2001 Spring

Public Agency	Year end on or before June 30, 2001	Status at November 16, 2001[1]	Significant issues reported[2]
South Central District Health Board	March 31	Rotational	
South Country District Health Board	March 31	Rotational	
South East District Health Board	March 31	Complete	Yes/2001 Fall V2
Southeast Regional College	June 30	Rotational	
Southwest District Health Board	March 31	Rotational	
SP Two Properties Ltd.	March 31	Denied Access	
St. Louis Alcoholism Rehabilitation Centre Inc.	March 31	Complete	No
Swan Valley Gas Corporation	December 31	Complete	Yes/2001 Spring
Swift Current District Health Board	March 31	Rotational	
Teachers' Superannuation Commission	June 30	Complete	Yes/2001 Spring
TecMark International Commercialization Inc.	March 31	Complete	No
Touchwood Qu'Appelle District Health Board	March 31	Rotational	
TransGas Limited	December 31	Complete	Yes/2001 Spring
Twin Rivers District Health Board	March 31	Complete	Yes/2001 Fall V2
Water Appeal Board	March 31	Complete	No
Western Development Museum	March 31	Complete	No
Workers' Compensation Board	December 31	Complete	Yes/2001 Spring
Workers' Compensation Board Superannuation Plan	December 31	Complete	Yes/2001 Spring
Special Purpose and Trust Funds:			
Agri-Food Equity Fund	March 31	Delayed	
Big Game Damage Compensation Fund	March 31	Complete	No
Capital Pension Plan	December 31	Complete	No
Cattle Marketing Deductions Fund	March 31	Complete	No
Commercial Revolving Fund	March 31	Complete	Yes/2001 Fall V2
Correctional Facilities Industries Revolving Fund	March 31	Complete	No
Correspondence School Revolving Fund	March 31	Complete	No
Crop Reinsurance Fund of Saskatchewan	March 31	Complete	Yes/2001 Fall V2
Doukhobors of Canada C.C.U.B. Trust Fund	May 31	Complete	No
Extended Health Care Plan	December 31	Complete	No
Extended Health Care Plan for Certain Other Employees	December 31	Complete	No
Fish and Wildlife Development Fund	March 31	Complete	Yes/2001 Fall V2
General Revenue Fund	March 31	Complete	Yes/2001 Fall V2
Highways Revolving Fund	March 31	Complete	No
Horned Cattle Fund	March 31	Complete	No
Judges of the Provincial Court Superannuation Plan	March 31	Complete	No

Appendix 2

Public Agency	Year end on or before June 30, 2001	Status at November 16, 2001[1]	Significant issues reported[2]
Learning Resources Distribution Centre Revolving Fund	March 31	Complete	Yes/2001 Spring
Livestock Services Revolving Fund	March 31	Complete	Yes/2001 Fall V2
Members of the Legislative Assembly Superannuation Plan	March 31	Complete	Yes/2001 Fall V2
Northern Revenue Sharing Trust Account	December 31	Complete	No
Office of the Rentalsman – Rentalsman's Trust Account	March 31	Complete	No
Oil and Gas Environmental Fund	March 31	Complete	No
Pastures Revolving Fund	March 31	Complete	Yes/2001 Fall V2
Provincial Mediation Board Trust Account	March 31	Complete	No
Public Employees Benefits Agency Revolving Fund	March 31	Complete	No
Public Employees Deferred Salary Leave Fund	December 31	Complete	No
Public Employees Dental Fund	December 31	Complete	No
Public Employees Disability Income Fund	December 31	Complete	No
Public Employees Group Life Insurance Fund	December 31	Complete	No
Public Trustee for Saskatchewan	March 31	Delayed	Yes/2001 Fall V2
Queen's Printer Revolving Fund	March 31	Complete	No
Resource Protection and Development Revolving Fund	March 31	Complete	Yes/2001 Fall V2
Sask 911 Account	March 31	Complete	No
Saskatchewan Agricultural Stabilization Fund	March 31	Complete	Yes/2001 Fall V2
Saskatchewan Development Fund	December 31	Complete	Yes/2001 Spring
Saskatchewan Legal Aid Commission	March 31	Complete	No
Saskatchewan Legal Aid Commission Client Trust Accounts	March 31	Complete	No
Saskatchewan Research Council Employees' Pension Plan	December 31	Complete	No
Saskatchewan Snowmobile Fund	March 31	Complete	No
Saskatchewan Student Aid Fund	March 31	Complete	Yes/2001 Fall V2
Saskatchewan Telecommunications Pension Plan	December 31	Complete	No
SaskPower Supplementary Superannuation Plan	December 31	Delayed	
School Division Tax Loss Compensation Fund	March 31	Complete	No
Social Services Central Trust Account	March 31	Complete	No
Staff Pension Plan for Employees of the Saskatchewan Legal Aid Commission	December 31	Complete	No
Training Completions Fund	March 31	Complete	No
Transportation Partnerships Fund	March 31	Complete	No

Public Agency	Year end on or before June 30, 2001	Status at November 16, 2001[1]	Significant issues reported[2]
Trust Accounts at Court House, Local Registrars and Sheriff's Offices	March 31	Complete	No
Victims' Fund	March 31	Complete	No
Other organizations subject to examination under *The Provincial Auditor Act*:			
Board of Internal Economy	March 31	Complete	Yes/2001 Fall V2
Chief Electoral Office	March 31	Delayed	
Conflict of Interest Commissioner	March 31	Complete	No
Information and Privacy Commissioner	March 31	Complete	No
Ombudsman and Children's Advocate, Office of the	March 31	Complete	No
Pension Plan for the Eligible Employees at the University of Saskatchewan, 1974	December 31	Complete	No
Saskatchewan Archives Board, The	March 31	Complete	Yes/2001 Spring
Saskatchewan Indian Gaming Authority Inc.	March 31	Complete	Yes/2001 Fall V2
University of Regina Academic and Administrative Employees Pension Plan	December 31	Complete	No
University of Regina Crown Foundation	April 30	Complete	No
University of Regina Master Trust	December 31	Complete	No
University of Regina Non-Academic Pension Plan	December 31	Complete	No
University of Regina Pension Plan for Eligible Part-Time Employees	December 31	Complete	No
University of Regina, The	April 30	Complete	No
University of Saskatchewan Academic Employees' Pension Plan	December 31	Complete	No
University of Saskatchewan and Federated Colleges Non-Academic Pension Plan	December 31	Complete	No
University of Saskatchewan Clinicians Service-Side Pension Plan	December 31	Complete	No
University of Saskatchewan Crown Foundation	April 30	Complete	No
University of Saskatchewan Long Term Disability Fund	April 30	Complete	No
University of Saskatchewan, The	April 30	Complete	No

Note 1: We audit these agencies in a different way.

In 1999, the Department of Agriculture and Food and our Office agreed that the most efficient way for our Office to examine these smaller agricultural marketing and development agencies would be to work through the Agricultural and Food Products Development and Marketing Council. As part of our audit of the Department of Agriculture and Food, we examine the supervisory work carried out by the Council regarding the financial statements of these agencies and the rules and procedures to safeguard and control their assets and to comply with legislative authorities.

In 1999, the Department of Economic and Co-operative Development and our Office agreed, as part of the annual audit of the Department, that we would examine the supervisory work carried out by the Department over the Saskatchewan Trade and Export Partnership Inc.

Note 2: These entities are wholly or partially-owned subsidiaries of Saskatchewan Telecommunications Holding Corporation (Corporation). They are included in the consolidated financial statements of the Corporation. For the year ending December 31, 2000, these entities did not carry out active operations.

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[1] "Complete" – the audit was complete at November 16, 2001;
"Delayed" – the audit was delayed;
"Rotational" – for a few sectors (i.e., health districts and regional colleges), we carry out the audits of the most significant entities and use a rotational approach for the remainder. We list entities in rotation whose audits were complete at November 16, 2001 as "Complete". We list the other entities as "Rotational".
"Denied Access" – in a few cases, we have not been given access to the necessary information to complete the audits.

[2] "No" - no significant issues were reported;
"Yes/2001 Spring" – significant issues were reported in our 2001 Spring Report;
"Yes/2001 Fall V1" – significant issues were reported in our 2001 Fall Report – Volume 1; and
"Yes/2001 Fall V2" – significant issues are reported in our 2001 Fall Report – Volume 2.

Appendix 3

Examples of opinions we form on departments, Crown agencies, and Crown-controlled corporations

Our mission states "We encourage accountability and effective management in government operations". We do this by examining and reporting on:

- the reliability of financial information;
- compliance with authorities;
- the adequacy of management systems and practices related to financial reporting, compliance with authorities and safeguarding assets; and
- the adequacy of management systems and practices related to due regard to economy, efficiency and effectiveness.

Our examinations and reports focus on the Government as a whole, sectors or programs of government, and individual government organizations. This Appendix contains examples of the audit opinions we form to provide our assurances on financial statements, compliance with authorities, and management practices in this Report. We use the auditing standards recommended by The Canadian Institute of Chartered Accountants to form our opinions.

1. **Following is an example of the opinion we form on the adequacy of the control systems used by an agency to safeguard and control public money.**

> I have examined the system of internal control of [Crown Agency X] in effect as at [date]. I did not examine certain aspects of internal control concerning the effectiveness, economy, and efficiency of certain management decision-making processes. The criteria for the examination of this system of internal control consisted of the control environment and control systems described in The Canadian Institute of Chartered Accountants Handbook.
>
> My examination was conducted in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an examination to obtain reasonable assurance whether the system of internal control established and maintained by management is

sufficient to meet the control objectives referred to below. Such an examination includes obtaining an understanding of the system of internal control and performing tests of controls to determine whether the internal controls exist and operate effectively.

The management of [Crown Agency X] is responsible for establishing and maintaining a system of internal control to achieve the control objectives noted in (a) to (d) below. In fulfilling this responsibility, estimates and judgement by management are required to assess the expected benefits and related costs of control procedures. Pursuant to my responsibilities under Section 11(1) of The Provincial Auditor Act, I am required to determine that there is a system of internal control in effect which provides management with reasonable, but not absolute, assurance that:

a) the accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;

b) all public money is fully accounted for and properly disposed of and the rules and procedures applied are sufficient to ensure an effective check on the assessment, collection and proper allocation of public money;

c) transactions are executed in accordance with management's authorization, public money expended is applied to the purpose for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and

d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money against loss from unauthorized use or disposition.

Because of the inherent limitations in any system of internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

In my opinion, based upon the above criteria, the system of internal control of [Crown Agency X] in effect as at [date], taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or fraud in amounts that would be material in relation to [Crown Agency X].

Or if the examination disclosed conditions that, individually or in combination result in one or more material weaknesses, the opinion paragraph should be modified as follows:

My examination disclosed the following conditions in the system of internal control of [Crown Agency X] as at [date] which in my opinion, based upon the above criteria, resulted in more than a relatively low risk that errors or fraud in amounts that would be material in relation to [Crown Agency X] may occur and not be detected within a timely period.

> *The report should go on to describe all material weaknesses, state whether they resulted from the absence of control procedures or the degree of compliance with them, and describe the general nature of the potential errors or fraud that may occur as a result of the weaknesses.*

City Date

Chartered Accountant

2. **Following is an example of the opinion we form on an agency's compliance with the law regarding its spending, revenue raising, borrowing and investing activities.**

I have made an examination to determine whether [Crown Agency X] complied with the provisions of the following legislative and related authorities pertaining to its financial reporting, safeguarding assets, spending, revenue raising, borrowing and investing activities during the year ended [date]:

> *(List legislative and related authorities covered by this report. This list must include all governing authorities.)*

My examination was made in accordance with Canadian generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, [Crown Agency X] has complied, in all significant respects, with the provisions of the aforementioned legislative and related authorities during the year ended [date].

> *(The report should provide adequate explanation with respect to any reservation contained in the opinion together with, if relevant and practicable, the monetary effect.)*

City Date

Chartered Accountant

3. **Following is an example of the opinion we form on the financial statements prepared by management of an agency.**

I have audited the balance sheet of [Crown Agency X] as at [date] and the statements of income, retained earnings and changes in financial position for the year then ended. The [Crown Agency X]'s management is responsible for preparing these financial statements for Treasury Board's approval. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the [Crown Agency X] as at [date] and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

City Date

Chartered Accountant

Appendix 4

Reports of appointed auditors

Appendix 4 contains the reports of appointed auditors that we have not relied on and the report of the appointed auditor indicates a matter or issue that should be reported to the Assembly.

Appendix 4 does not contain the reports of appointed auditors that indicate a matter or issue to report to the Assembly when we have not yet done our work. Appendix 2 contains a list of work not done.

Crown Agency	Page
Saskatoon District Health Board	4-2
Lloydminster District Health Board	4-6
Moose Jaw-Thunder Creek District Health Board (appointed auditor's reports not yet issued)	

SASKATOON DISTRICT HEALTH BOARD
YEAR ENDED MARCH 31, 2001

Auditors' Report to the Directors of Saskatoon District Health Board

We have examined the system of internal control of Saskatoon District Health Board in effect as at March 31, 2001. We did not examine certain aspects of internal control concerning the effectiveness, economy and efficiency of certain management decision making processes. The criteria for the examination of this system of internal control consisted of the control environment and control systems described in the Canadian Institute of Chartered Accountants Handbook.

Our examination was conducted in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an examination to obtain reasonable assurance whether the system of internal control established and maintained by management is sufficient to meet the control objectives referred to below. Such an examination includes obtaining an understanding of the system of control and performing tests of controls to determine whether the internal controls exist and operate effectively.

The management of the Saskatoon District Health Board is responsible for establishing and maintaining a system of internal control to achieve the control objectives noted in a) to d) below. In fulfilling this responsibility, estimates and judgement by management are required to assess the expected benefits and related costs of control procedures. Pursuant to our responsibilities under Section 11(1) of The Provincial Auditor Act, we are required to determine if there is a system of internal control in effect which provides management with reasonable, but not absolute, assurance that:

a) the accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;

b) all public money is fully accounted for and properly disposed of and the rules and procedures applied are sufficient to ensure an effective check on the assessment, collection and proper allocation of pubic money;

c) transactions are executed in accordance with management's authorization, public money expended is applied to the purpose for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and

d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money against loss from unauthorized use or disposition.

Because of the inherent limitations in any system of interned control, errors or fraud may occur and not be detected. Also, projections of any evaluation of the system of internal control to future periods is subject to risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our examination disclosed the following conditions to the system of internal control of the Board and affiliates as at March 31, 2001 which in our opinion, based upon the above criteria, resulted in more than a relatively low risk that errors or fraud in amounts that would be material in relation to the Board may occur and not be detected within a timely period.

Affiliates Reporting

The following items represent internal control weaknesses identified for organizations affiliated with the Board:

Segregation of Incompatible Functions

One affiliated organization reported inadequate segregation of responsibility between cash handling and accounting functions.

Authorization and Review

One affiliated organization reported weaknesses in authorization and review procedures with respect to payroll information.

Financial Reporting

Two affiliated organizations reported that accounting procedures were inadequate to generate accurate monthly financial reports

Policies and Procedures

One affiliated organization reported that documentation of accounting and authorization policies and procedures was insufficient.

Chartered Accountants
June 29, 2001

SASKATOON DISTRICT HEALTH BOARD
YEAR ENDED MARCH 31, 2001

Auditors' Report to the Directors of Saskatoon District Health Board

We have made an examination to determine whether the Saskatoon District Health Board complied with the provisions of the following legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue raising, borrowing and investing activities during the year ended March 31, 2001:

- The Health Districts Act
- The Health Facilities Licensing Act
- The Hospital Standards Act
- St. Paul's Hospital (Grey Nuns) of Saskatoon Act
- The Housing and Special Care Homes Act
- The Trustee Act
- Related regulations regarding the above legislation
- Orders-in-Council issued pursuant to the above legislation

Our examination was made in accordance with Canadian generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the Saskatoon District Health Board has complied, in all significant respects, with the provisions of the aforementioned legislative and related authorities during the year ended March 31, 2001 except as described in the following paragraphs:

Program reporting requirements

Subsection 35(2) of the Health Districts Act requires the Board to submit to the Minister reports on health board's services and activities and their costs and the health status of the residents and the effectiveness of the Board's programs.

The Board prepares a "Report to the Community" which includes an analysis of health status and health needs of the residents of Saskatoon along with the goals and objectives of the District. In addition, for 2000-2001 reports were delivered to the public through a series of news letters and community board meetings. The Board has also prepared a strategic plan for 2001-2002 which includes information about services to be provided and their cost.

The Provincial Auditor of Saskatchewan has indicated that he does not believe that current reporting meets the full intent of the legislation. However, no prescribed format for reporting this information currently exists and therefore we have concluded that the reports prepared by the Board comply with the legislation.

Affiliate Reporting

One affiliated organization did not provide Saskatoon District Health Board with audited financial statements, an auditors' report on internal controls nor an auditors' report on legislative compliance as required under their operating agreement and Section 26.1 of the Health Districts Act.

Chartered Accountants
June 29, 2001

LLOYDMINSTER DISTRICT HEALTH BOARD
YEAR ENDED MARCH 31, 2001

To: Lloydminster District Health Board

We have examined the system of internal control of Lloydminster District Health Board in effect as at March 31, 2001. We did not examine certain aspects of internal control concerning the effectiveness, economy, and efficiency of certain management decision making processes. The criteria for the examination of this system of internal control consisted of the control environment and control systems described in the Canadian Institute of Chartered Accountants Handbook.

Our examination was conducted in accordance with generally accepted auditing standards. Those standards require that we plan and perform an examination to obtain reasonable assurance whether the system of internal control established and maintained by management is sufficient to meet the control objectives referred to below. Such an examination includes obtaining an understanding of the system of internal control and performing tests of controls to determine whether the internal controls exist and operate effectively.

The Management of Lloydminster District Health Board is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgement by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system of internal control are to provide management with reasonable, but not absolute, assurance that:

a) the accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;

b) all public money is fully accounted for and properly disposed of and the rules and procedures applied are sufficient to ensure an effective check on the assessment, collection and proper allocation of public money;

c) transactions are executed in accordance with management's authorization, public money expended is applied to the purpose for which it is appropriated by the Legislature and the expenditures have adequate statutory authority, and

d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money against loss from unauthorized use or disposition.

Because of the inherent limitations in any system of internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our examination disclosed the following conditions in the system of internal control of Lloydminster District Health Board as at March 31, 2001 which in our opinion, based upon the above criteria, resulted in more than a relatively low risk that errors or fraud in amounts that would be material in relation to Lloydminster District Health Board may occur and not be detected within a timely period:

I. **The Board's internal reports do not show the expected costs of services and related activities.**

The Board needs to know the expected cost of its services and related activities to set direction and monitor performance.

To set direction and monitor performance, the directors should specify, for each service that it delivers:

- the need the service will satisfy;
- the expected cost of the service and related activities;
- how many services or activities the District expects to deliver; and
- the desired outcome of the service and how the District will measure the outcome.

The directors do not receive internal reports showing all this information. However, more work needs to be done by both the Department of Health and the District before the District can report on this information more fully.

II. **Specific details have to be concluded as addenda to the Bi-Provincial Lloydminster Health Services Agreement.**

Adequate written agreements help ensure there are no misunderstandings of responsibilities and expectations

The Board provides health services to Alberta residents under the Bi-Provincial Lloydminster Health Services Agreement with East Central Regional Heath Authority 7 (ECRHA7). This agreement sets out the general principles and process with respect to:

- the health services to be provided and the service areas and/or populations to be served by the Board on behalf of ECRHA7;
- the operating, equipment and capital funding and any other related payments to be provided by ECRHA7 to the Board;
- the management and operation of the Dr. Cooke Extended Care Centre by the Board;
- the management and direction of ECRHA7 employees by the Board; and
- the reporting and accountability requirements in respect of the services provided by the Board on behalf of the ECRHA7.

The lack of addenda to this agreement outlining specific details on some of these matters could result in the Board's financial, operational and compliance with authorities objectives not being met.

Chartered Accountants
May 10, 2001

LLOYDMINSTER DISTRICT HEALTH BOARD
YEAR ENDED MARCH 31, 2001

To: Lloydminster District Health Board

We have made an examination to determine whether Lloydminster District Health Board compiled with the provisions of the following legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue raising, borrowing and investing activities during the year ended March 31, 2001.

The Heath Districts Act and regulations
The Hospital Standards Act
The Hospital Standards Regulations
The Hospital Comprehensive Purchasing Regulations
The Housing and Special-care Homes Act
The Special-care Homes Rates Regulations
The Housing and Special-care Homes Regulations
The Trustee Act
The Health Facilities Licensing Act
The Health Labour Relations Reorganization (Commissioner) Regulations
Orders in Council issued pursuant to the above Acts
Health Board bylaws and directives

Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the Lloydminster District Health Board has complied, in all significant respects, with the provisions of the aforementioned legislative and related authorities during the year ended March 31, 2001 except as follows:

I. External Reporting Requirements

The Board did not submit to the Minister some information required by The Health Districts Act.

Subsection 35(2) of the Act requires the District to submit the following information:

i) a report on the District Health Board's services and activities and their costs; and

ii) a report on the health status of the residents of the Health District and the effectiveness of the District Health Board's programs.

The Annual Report and Health Plan provide information about the District's services and activities and their costs, the health status of residents. However, these reports do not meet the full range of requirements in subsection 35(2) of the Act. More work needs to be done by both the Department of Health and the District before the District can report this information more fully.

II. Acquisition of Capital Assets

The Board purchased equipment without meeting the requirements of the Hospital Standards Regulations.

Regulation 66(3) states that the Hospital may not purchase equipment costing $2,500 or more without the prior approval of the Minister. The Board purchased some assets prior to obtaining the Minister's approval.

Chartered Accountants
May 10, 2001